Department for
Business, Energy
& Industrial Strategy

Energy Intensive Industries

Review of the scheme to provide relief to energy intensive industries for a proportion of the indirect costs of funding renewable electricity policies.

Closing date: 16 September 2022

August 2022

Any enquiries regarding this publication should be sent to us at:
energyintensiveindustries@beis.gov.uk

Contents

General information

Why we are consulting

This consultation seeks views on the Government's exemption scheme for Energy Intensive Industries from the indirect costs of funding the Contracts for Difference (CfD), Renewables Obligation (RO) and small-scale Feed-in Tariffs (FIT) schemes ("Exemption Scheme" or "Scheme").

It seeks feedback and evidence to consider whether there is a rationale for increasing the subsidy level of the current scheme in order to address the increased risk of carbon leakage and the higher costs of industrial electricity prices.

Consultation details

Issued: 12 August 2022
Respond by: 16 September 2022

Enquiries to:
Department for Business, Energy, and Industrial Strategy
Energy Intensive Industries Team
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Consultation reference:
Energy Intensive Industries: review of the schemes to provide relief to energy intensive industries for a proportion of the costs of funding renewable energy generation

Audiences:
We are seeking views from a wide range of audiences, including energy intensive industries (whether currently benefitting or not benefitting from the exemption), other electricity consumers, trade bodies, consumer associations, the devolved administrations and other interested parties.

Territorial extent:
This consultation covers Great Britain. A consultation will take place in Scotland on the Renewables Obligation, as this policy is devolved.

How to respond

Please respond online to the Consultation Questions via the survey available through the link below.

Respond online at: https://beisgovuk.citizenspace.com/energy-security/eiis-review-schemes-2022

You can also email or send your responses by post. Please see details below.
Email to: energyintensiveindustries@beis.gov.uk

Write to:
Energy Intensive Industries Team
Department for Business, Energy and Industrial Strategy
Energy Intensive Industries
Orchard 1, 4th Floor
1 Victoria Street
London
SW1H 0ET

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable UK and EU data protection laws. See our privacy policy.

We will summarise all responses and publish the summary on https://www.gov.uk/government/consultations/review-of-energy-intensive-industries-scheme

The summary will include a list of names or organisations that responded, but not individual's names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the Government's consultation principles.

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Introduction

Rationale for the Exemption Scheme

The Government announced its intention to exempt certain EIIs from a proportion of the additional costs arising from the CfD in 2012[1]. At Budget 2014, the Government decided to compensate certain EIIs for a proportion of the indirect costs of the RO and FIT schemes as it was not possible at that stage to introduce an exemption scheme. This scheme was launched in 2016.

For those energy intensive industries (EIIs) particularly exposed to international trade and heavily reliant on electricity, paying the full amount of electricity policy costs on their electricity consumption to support delivery of the Government's Net Zero Strategy can increase the risk of carbon leakage and the cost of electricity relative to other energy sources.

The resulting increase in electricity prices partly accounts for the UK's relatively high industrial electricity costs compared with those in other jurisdictions including other European countries. Without government support, these costs could discourage electrification of manufacturing processes. This, in turn, might make it more challenging to deliver net zero outcomes and put certain EIIs which are particularly exposed to those costs, at a significant competitive disadvantage therefore potentially increasing the risk for carbon leakage.

Climate rules and policies designed to reduce emissions in a given country can increase the costs of production of its businesses (including indirectly because of the impact on the price of inputs, such as energy) relative to international competitors if those competitors are subject to weaker climate change mitigation policies. If such rules and policies (such as carbon pricing, or other emissions reduction policies), are not implemented in an equivalent way across jurisdictions, this can result in production and the associated greenhouse gas emissions being displaced, undermining the original environmental objective of climate mitigation policies.

In general, carbon leakage can be said to occur if all of the following conditions are satisfied:
• Climate mitigation policies differ across jurisdictions;
• Emissions shift to a region with lower climate mitigation obligations; and
• Shifts in production to a firm in a different jurisdiction led to a sustained increase in emissions intensity, higher than it would have been had production not moved.

Placing policy costs on EIIs which are particularly at risk of carbon leakage risks undermining public acceptance of ambitious renewable energy support measures

[1] https://www.gov.uk/government/news/energy-intensive-industries-to-be-exempt-from-new-low-carbon-costs

which are a crucial means of delivering on the UK's domestic and international climate commitments (including the CFD, RO and FIT schemes).

To mitigate these risks, the Government reduces the indirect cost of funding three such renewable policies and their related levies and obligations for certain EIIs through an Exemption Scheme. The Exemption Scheme provides a discount of up to 85% of the indirect costs of the CfD, RO and FIT renewable electricity schemes.

The three renewable policies are the Contracts for Difference (CfD), Renewables Obligation (RO) and Feed-in Tariffs (FIT) schemes, which are domestic energy and climate change policies designed to encourage investment in low carbon and renewable electricity generation to enable the UK to meet its ambitious and legally binding decarbonisation targets. The costs of funding these low-carbon and renewable support schemes are recovered through obligations and levies placed on electricity suppliers, which are ultimately passed on to consumers through electricity bills.

Rationale for undertaking the review

When BEIS launched the Exemption Scheme in November 2017, around 150 companies applied. There are now over 300 businesses benefiting from the scheme.

The recent UK Energy Security Strategy, which was launched on 7 April 2022, committed to continue to help industry in the UK who face higher industrial electricity prices.

Specifically, the strategy included a commitment to consider measures to support business including increasing the subsidy intensity of the Exemption Scheme from 85% up to 100%.

The review also provides the opportunity to consider other aspects of the Scheme, including how often we assess business accounts.

Scope of the Review

The Exemption Scheme does not operate in Northern Ireland[2]. The scope of this review is therefore limited to Great Britain. The Northern Ireland Executive has confirmed that they will consider incorporating any changes resulting from this review into a future relief scheme on which they have just consulted[3]. The Scottish

[2]Companies in Northern Ireland are eligible to apply for the EII Compensation scheme https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/794138/ni-compensation-guidance-rev-apr2019.pdf

[3] https://www.economy-ni.gov.uk/consultations/energy-intensive-industries-relief-indirect-costs-ni-renewables-obligation

Government will be consulting in parallel as the Renewable Obligation is devolved in Scotland.

The review will consider whether the current level of subsidy is appropriate in the context of the UK's subsidy control regime and broader Government objectives on addressing carbon leakage and incentivising decarbonisation by industry.

The review will address proposed changes to the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 (the **EII Regulations**) (which contain the criteria for the exemption) and to the Renewables Obligation Order 2015 (the **RO Order**) (in respect of the arrangements for setting the level for the 2023/24 obligation period).

Timing of any changes

Any policy change informed by this consultation will be subject to the completion of relevant subsidy control assessments. Moreover, regulations required to implement the policy including any amendment to the EII Regulations and RO Regulations will be subject to the draft affirmative procedure in Parliament.

We will look to bring into effect and implement any changes to the EII Regulations as soon as possible, with regard to Parliamentary approvals and the completion of all relevant subsidy control assessments.

Purpose of the Consultation

The purpose of this consultation is to seek views and evidence from existing recipients and other interested stakeholders on:

a) Whether there is a rationale for increasing the subsidy level of the current scheme in order to address the increased risk of carbon leakage and the higher costs of industrial electricity prices.
b) the cumulative burden of the scheme on eligible companies through the requirements to provide regular business accounts.

Further details and consultation questions on each of these are set out in the full document.

Responses received will help to inform the future subsidy level of the EII Exemption Scheme.

Subsidy Control

Any exemption for indirect costs of renewables policy costs will be given in accordance with the UK subsidy control regime.

On 28 April 2022 the Subsidy Control Act 2022 (SCA) received royal assent and will be commenced in autumn of this year.

In general terms, the Government defines a subsidy as a financial measure using public resources which selectively confers a benefit on one or more recipients. This could include, for example, a discount or exemption, a loan with interest below the market rate, or a loan guarantee. Subsidies are administered by all levels of government in the UK. An exemption for the indirect cost due to electricity policy costs therefore falls under this definition and subsidy control therefore applies to the exemption scheme.

The SCA establishes broad principles that are aimed at ensuring that the giving of a subsidy does not have detrimental effects on competition and investment within the UK and on trade and investment more broadly. The SCA and forthcoming statutory guidance sets out how the subsidy control principles, requirements and other conditions should be considered by public authorities within the UK.

The Government has delivered a subsidy control system that strikes the right balance between allowing the benefits that can be derived from subsidies while limiting harmful impacts. The Government's objectives for the future subsidy control regime are:

- Facilitating interventions to deliver on the UK's strategic interests
- Maintaining a competitive and dynamic market economy
- Protecting the UK internal market
- Acting as a responsible trade partner

Under the SCA, energy and environmental subsidies are also subject to specific, additional principles, including principles aimed at ensuring the subsidies will deliver, and duly incentivise the beneficiary in delivering, a secure, affordable and sustainable energy system and a well-functioning and competitive energy market or increasing the level of environmental protection compared to the level that would be achieved in absence of the subsidy.

Before implementing any change to the existing exemptions regime, BEIS will complete the necessary subsidy control assessment to ensure the scheme is compliant with the statutory framework for the domestic subsidy control regime, the UK – EU Trade and Cooperation Agreement (TCA) and other international subsidy control commitments.

Analytical Evidence Base

This section provides an overview of the available evidence regarding the impacts of the CfD, the RO, FIT on electricity prices and subsequently on international competitiveness and the potential increasing risk of carbon leakage.

Evidence of the risk of carbon leakage occurring in the UK

Carbon leakage is the displacement of domestic production, and its associated emissions due to different levels of carbon pricing and climate regulations across jurisdictions.

The risk of carbon leakage is supported by theoretical analysis and evidence [4] In part, this is thought to be due to historic low carbon prices in most jurisdictions, however, as prices have risen recently, their impact is yet to be quantified. While the UK has committed to Net Zero by 2050, many other competitors have not. The ambitious target the UK has set to deliver Net Zero brings requirements for change and associated costs, which the UK will likely incur sooner given our requirements included in carbon budgets compared to less ambitious commitments by global competitors.

The indirect funding of renewable policy costs under the CfD, RO and FiT scheme represent a portion of a firm's electricity costs and are associated with supporting the transition to Net Zero. These levies are some of the highest in Europe and not present in many other competing countries and as such, represent an additional climate policy cost when compared to these countries. While these costs alone are not always considered to be the most important factor for carbon leakage, with cost pass-through rates having a significant impact, they contribute to a wider carbon leakage risk. Other factors which affect carbon leakage include capital intensity, trade intensity/exposure, emissions output and other industry associated costs.

Conversely, there are complicated reasons involved in decisions to relocate production and investment from the UK. Free allocation of UK ETS allowances reduces exposure to the carbon price for sectors at risks of carbon leakage, and other mitigations or benefits of operating in the UK have and may continue to offset carbon leakage impacts e.g., access to capital, cost pass through rates, and abatement opportunities (see Industrial Decarbonisation Strategy)[5].

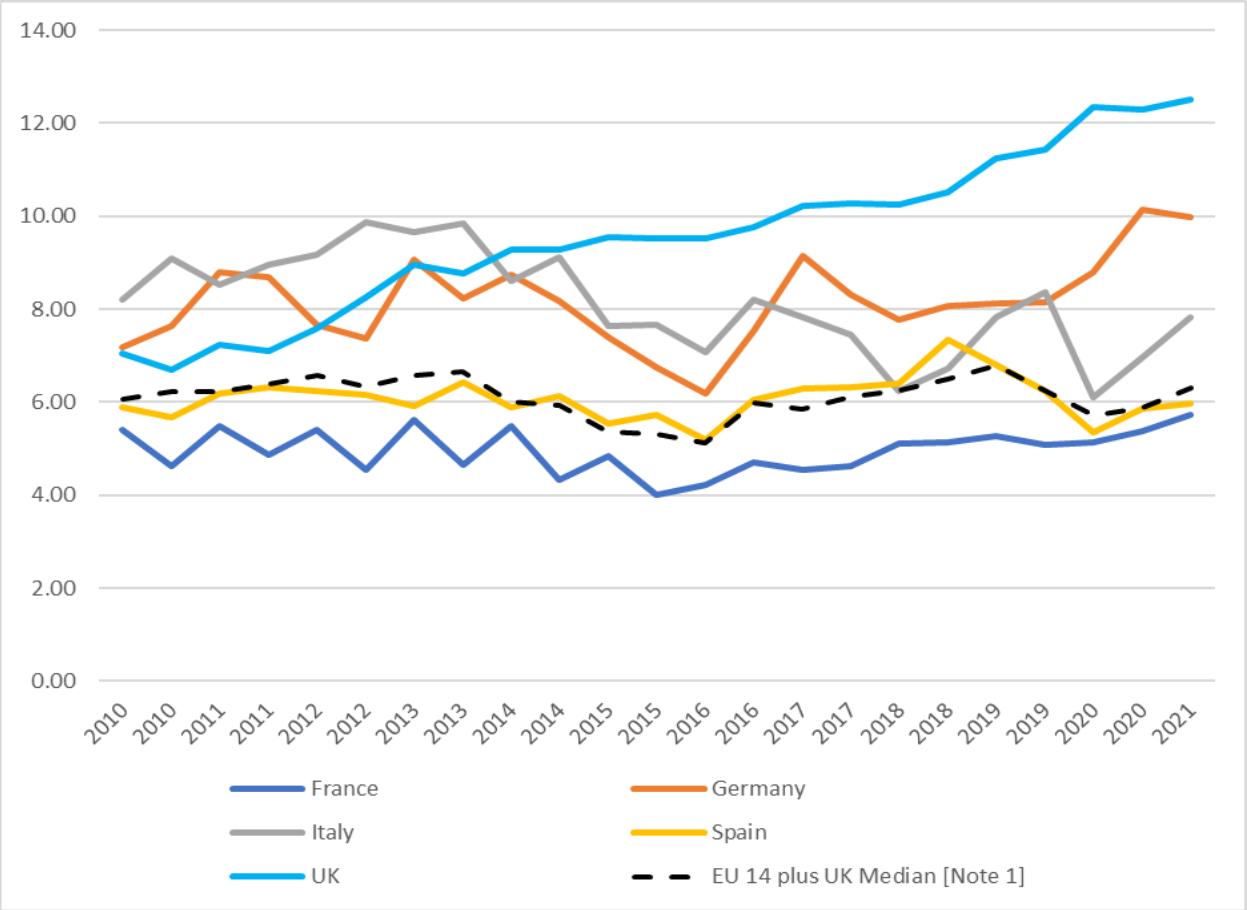
Nevertheless, Energy intensive industries (EIIs) currently eligible for the scheme are particularly exposed to the risk of carbon leakage due to their high proportional energy costs and trade intensity.

[4] World Bank Group. (2022). State and Trends of Carbon Pricing 2022.
[5] Industrial Decarbonisation Strategy – BEIS 2021

International Electricity price comparison and the impacts of policy costs on UK electricity

The UK has some of the highest electricity costs in Europe and beyond with this being caused in part by the policy costs the exemption scheme targets. These policy cost have been implemented for the UK to fund renewable electricity to help reach its national and international carbon targets.

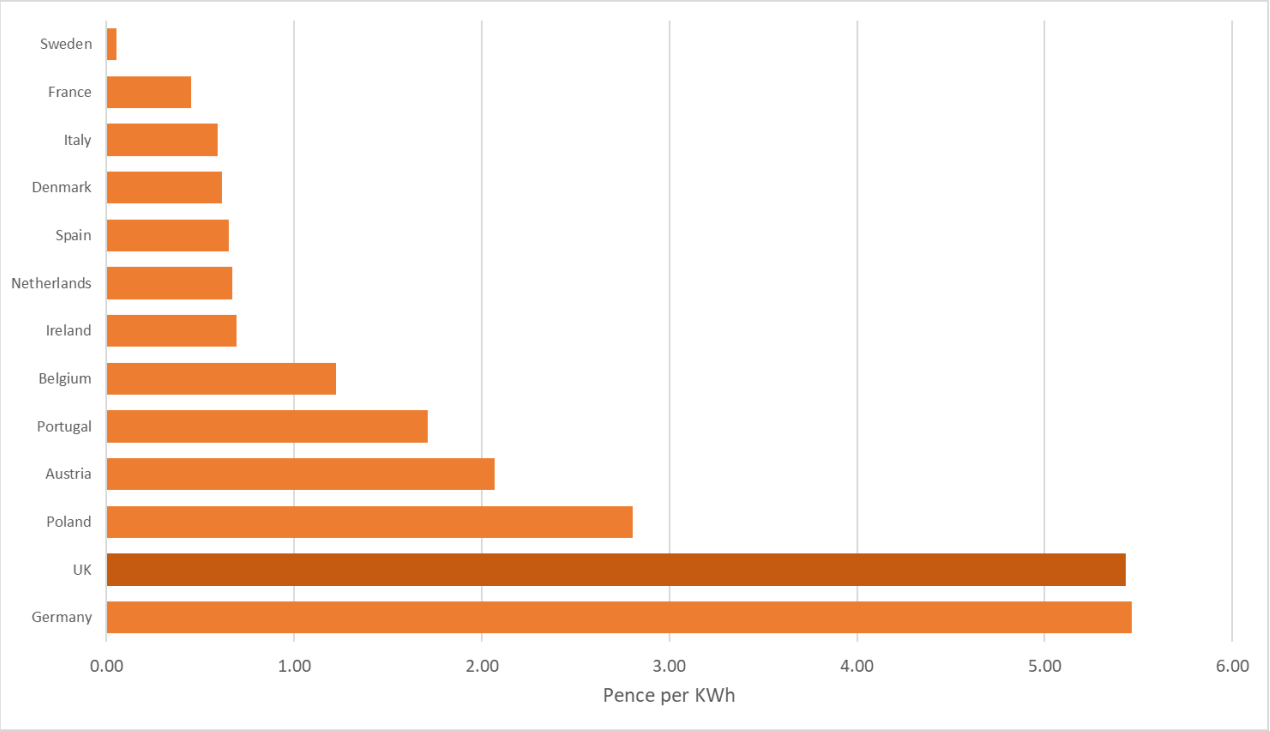
Figure 1. Industrial electricity prices in the European countries for extra-large electricity consumers including taxes (excluding VAT and other recoverable taxes and levies) in p/KWh[6]



For the period 2015-2021, prior to any intervention, extra-large UK users faced electricity costs 80% higher than the EU 14 plus UK median as shown in data from the QEP[7]. This has increased over time, as can be seen from Figure 1, with UK prices increasing consistently over the last decade, while the EU 14 average has remained relatively stable, reflecting different wholesale and policy costs.

[6] Quarterly Energy Prices BEIS 2021
[7] Quarterly Energy Prices BEIS 2021

Figure 2. Taxes and levies component of electricity price for extra-large industrial consumers between January - June 2021[8]

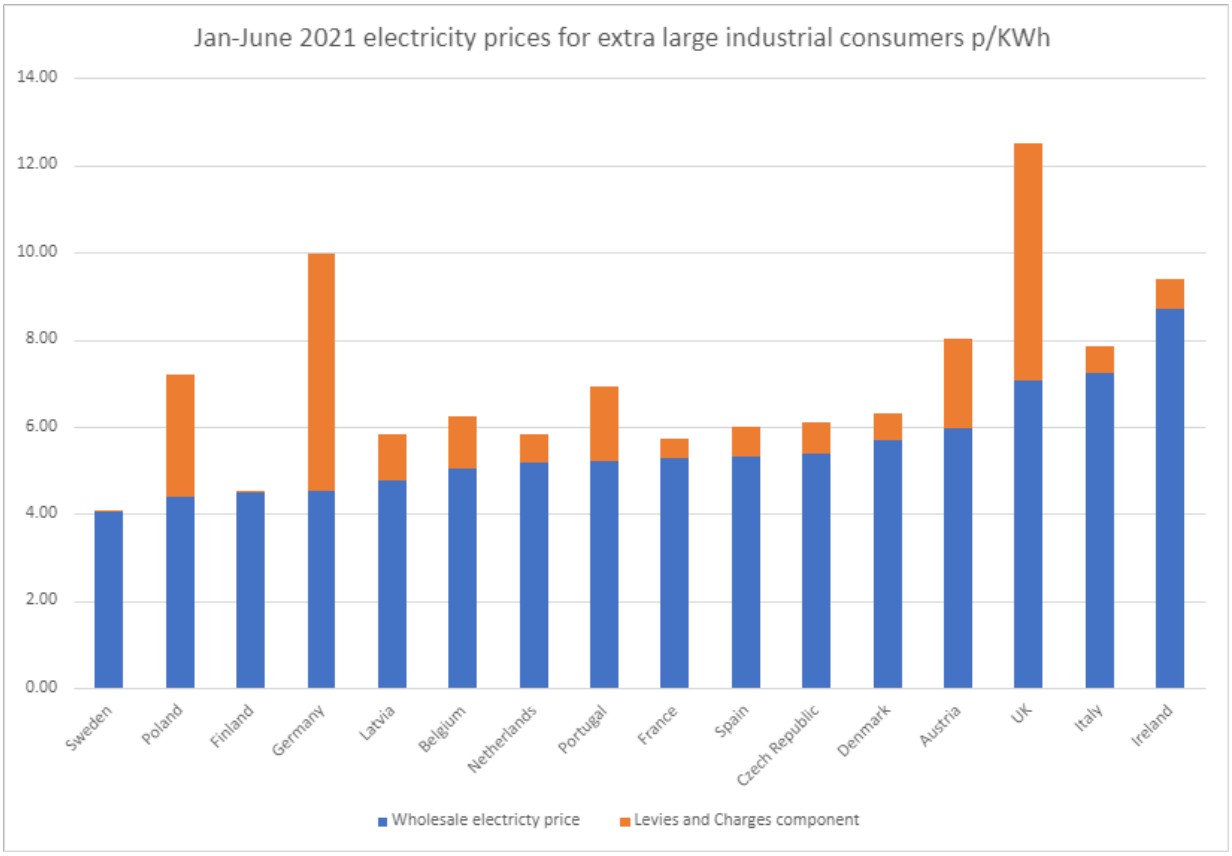


Due to the UK's commitment to net zero, and with electricity policy costs being spread across electricity bills, the UK has some of the highest renewable policy costs in Europe[9] . Figure 2 above indicates these renewable policy costs relative to similar European countries. However, other jurisdictions provide other forms of support to EIIs as shown in Ofgem analysis. The surrounding literature concerning carbon leakage and environmental policy suggests that trade exposed EII firms are more likely to relocate to areas of low environmental compliance costs[10].

As a result, an increase in the exemption from renewable policy costs to be more in line with European counterparts would be prudent to further mitigate the risk of carbon leakage to international jurisdictions where renewable policy costs are not so great. Moreover, this suggests that high electricity costs as caused, in part, by electricity policy costs would serve to dissuade further electrification for those most electro-intensive sectors and companies and potentially lead to carbon leakage.

[8] Quarterly Energy Prices BEIS 2021
[9] Quarterly Energy Prices BEIS 2021
[10] UK Business Competitiveness and the Role of Carbon Pricing: Vivid Economics, (2020)

Figure 3. Breakdown of electricity prices into levies and charges and the wholesale component Jan-June 2021 for extra-large industrial consumers p/KWh



When broken down into their component parts, UK electricity prices are made less competitive by their electricity policy costs. Figure 3 above indicates that the UK has some of the highest levies and charges placed on top of wholesale prices. This issue is what the Exemption Scheme aims to help mitigate by reducing the levy aspect of the electricity price thus helping to retain EII business competitiveness in the UK and thereby reducing that production will move to a country with higher industrial emissions.

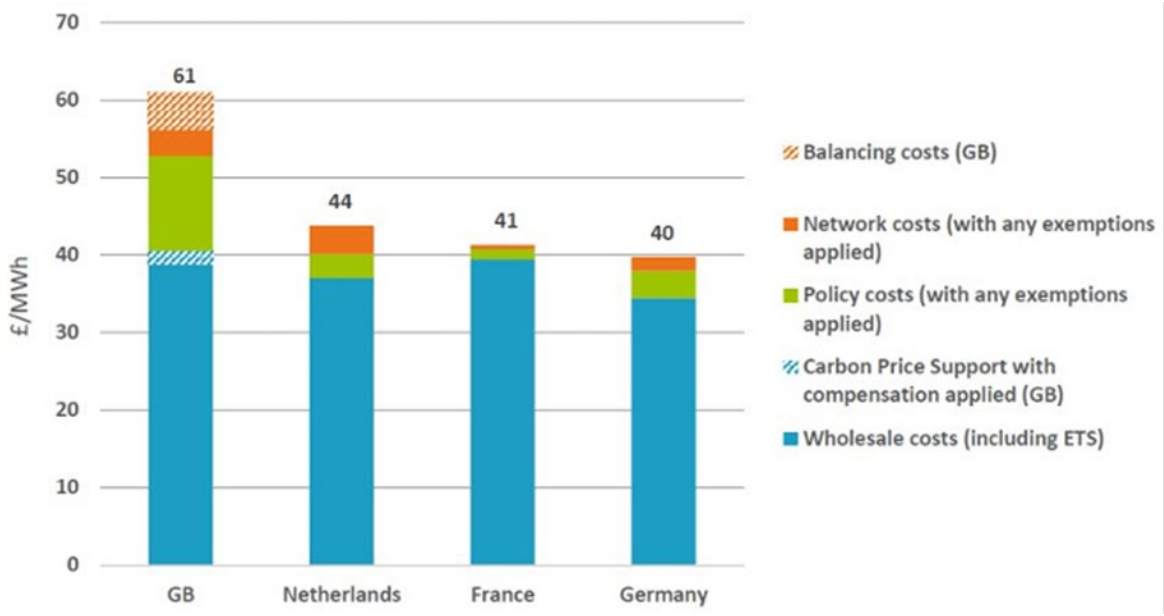
When relief for these levy costs are considered in comparison with other similar European nations, the UK remains relatively uncompetitive. On average over 2016-2020, Ofgem analysis[11] found that after considering all the supports and reliefs available to EIIs, both in GB and in other countries, GB EIIs faced electricity prices that were 50% higher than their EII competitors in France and Germany and nearly 40% higher than EIIs in the Netherlands. The report estimates that after exemption and discounts are applied, UK renewable policy costs amount to 23% of total electricity prices, while the next highest proportion being that of Germany's, at 10% after exemption and discount applied. Figure 4 below shows the average UK EII £/MWh cost compared to similar European countries. As the figure indicates, the

[11] "Research into GB electricity prices for Energy Intensive Industries", Ofgem (2021)

policy component contributes a large portion of the difference between UK electricity prices and similar countries prices.

This difference suggests the need for continued intervention to mitigate high renewable policy costs and the attendant risk of carbon leakage to jurisdictions which have not implemented renewable energy policies. The risk that placing unsustainable policy costs on EIIs undermines public acceptance of ambitious renewable energy support measures. Continued mitigation will be required to limit the negative impacts on competitiveness of electricity policy costs, however analysis from the above Ofgem study would suggest that the current exemption of policy costs could go further to bridge the gap between UK and competitor country electricity prices.

Figure 4. Average 2016-2020 electricity price in £/MWh with maximum discounts applied for EIIs with annual consumption of 100-500GWh[12]



Impacts of policy costs on UK EIIs, Competitiveness and Carbon leakage

A recently published ECB paper[13] suggests high electricity prices, such as those in part caused by electricity policy costs, are associated with reduced levels of domestic investment and employment. These effects are seen most noticeably when assessed in relation to EIIs. The paper estimated that a 20% rise in electricity price would cause a reduction in employment for EIIs of between 2% and 4%. A reduction in jobs as associated with high electricity costs would not only represent the real-world impact of carbon leakage but risks a further long-term decline in

[12] "Research into GB electricity prices for Energy Intensive Industries", Ofgem (2021)

[13] The interplay between green policy, electricity prices, financial constraints and jobs: firm-level evidence" ECB 2021

competitiveness of domestic EIIs due to because of reduced output and subsequent reductions in economies of scale and increases in cost per unit.

This paper also finds that empirical evidence suggests that firms are more likely to invest when electricity prices are lower. As demonstrated above, UK electricity policy costs markedly increase UK electricity prices when compared with competitor countries, even after exemption. The relationship between electricity price increase and reduced investment, was found to be stronger than that of the effects on unemployment and most intensely for EIIs. This would suggest that while the immediate impacts of high electricity prices, because of renewable policy costs, cause reduced demand for employment, these impacts are most profound in the long-term investment.

Impact of the current exemption scheme on electricity prices

Defining competitiveness as the capacity and ability of a firm or sector to gain and maintain a profitable, sustainable market share relative to rivals in domestic and international markets[14], higher electricity prices would be expected to have a negative impact on the international competitiveness of EIIs to the extent that electricity costs form a substantial part of their cost base.

As Figure 1 above shows, UK and EU electricity prices, including all levies and duties, have diverged since 2014. This divergence, and its underlying causes, highlight the need for a further exemption from these policy costs for UK EIIs in order to appropriately manage the risk of carbon leakage to international jurisdictions and the risk that placing unsustainable renewable policy costs on EIIs which are particularly at risk of carbon leakage undermines public acceptance of ambitious renewable energy support measures. This most negatively impacts EIIs that produce goods which are traded internationally, as they are least able to pass on the high electricity costs to consumers and can therefore be undercut by competitors from countries with lower electricity costs.

In its current form, the scheme reduces net electricity prices for EIIs by between £19/MWh and £37/MWh on average. This reduction highlights a substantial decrease in the policy costs element of electricity prices of 85%, while reducing total electricity costs for UK EIIs by around 25% in 2021. This brings electricity prices more in line with European counterparts, however as the above Ofgem paper indicates, the gap is still present even with the current exemption applied, highlighting the likely need for further intervention to appropriately manage identified carbon leakage and associated risks.

[14] UK Business Competitiveness and the Role of Carbon Pricing: Vivid Economics, (2020)

Impact of the Exemption Scheme

The current exemption scheme targets electricity costs, with those eligible for the relief needing to have at least 20% of their GVA being from electricity costs. With relatively higher electricity prices in the UK compared to similar countries in the EU and other countries without similar environmental regulation, these higher costs lead to higher prices than similar companies internationally, thus reducing competitiveness.

The current impacts are estimated below in Figure 5.

Figure 5. Impact of the scheme at its current subsidy intensity. [15]

Subsidy Intensity	Current price reduction for eligible EIIs
85% (current level)	£21/MWh-£33/MWh

The figures in the table above are based on 2020 estimated total consumption for businesses on the exemption scheme and are in 2020 prices. These figures are based on 2025 estimates, policy costs and the value of the scheme varies year on year.
They are indicative figures and may deviate from the real impact on prices by the exemption scheme. The figures in figure 5 are based on a scenario where gas prices fall from recent levels and, as a result, CFD costs increase, returning to normal levels. This means that the price impacts presented here are larger than they would be in a scenario where gas prices remain high and CFD costs remain low.

Questions

1. **What benefits does the electricity relief exemption scheme provide to energy intensive industries including, how the scheme addresses the issue of carbon leakage?**

[15] The impact of the exemption scheme on eligible businesses' bills have not been included in this document. There is significant variation in electricity consumption of businesses, so the analysis focuses instead on price impacts. Eligible businesses can calculate their bill impact by multiplying the price reduction in Figure 5 with their annual consumption in MWh. This will give the amount of money businesses could save each year as a result of the exemption scheme.

Review of the Exemption Scheme

Subsidy Control and Undertakings in Difficulty

The EII Regulations included a requirement for applicants to confirm that they were not an 'undertaking in difficulty' (UID) for the purposes of the European Commission's Guidelines on State aid for rescuing and restructuring (2014/C 249/01) at the point at which they provided evidence that they satisfied the business level test.

This was in addition to a provision enabling the Secretary of State to require evidence from an applicant in support of the same and a provision enabling the Secretary of State to refuse or revoke a certificate in circumstances in which that requirement was not satisfied.

We propose replacing those provisions with equivalent requirements, replacing the references to 'undertakings in difficulty' with references to 'ailing or insolvent economic actors' (AIEAs) for consistency with the TCA and the domestic subsidy control regime as provided for in the Subsidy Control Act 2022.

The Subsidy Control Act 2022 defines an enterprise as "ailing or insolvent" if—

a. it would almost certainly go out of business in the short to medium term without subsidies,
b. it is unable to pay its debts as they fall due, or
c. the value of its assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities.

As a result of those proposed changes, an applicant would not be eligible for relief if it cannot satisfy the Secretary of State that it is not an AIEA at the point in time at which it is required to provide evidence that it satisfies the business level test.

BEIS will carry out checks to determine whether an applicant is an AIEA and, where necessary, may require additional information from the applicant and/or its parent company to satisfy us on this point.

Questions

2. **Do you agree with our proposal to replace the reference to UID with AIEA in the guidance?**

Assessing the business accounts

The purpose of the business level test is to ensure that the exemptions target only those businesses where support is most needed, i.e. those that will be put at

significant competitive disadvantage from the costs of funding renewable and low carbon policies.

To satisfy the business level test, businesses need to show that their electricity costs amount to 20% or more of their Gross Value Added (GVA) over a reference period – the "relevant period".

Under the business-level test, an applicant must be a legal entity such as a Company registered at Companies House. Eligibility is currently assessed using data based on the applicant's financial year. If applicable, the accounts on which data has been based must have been submitted to Companies House to allow verification. A business cannot apply with fewer periods of data than exist i.e., it is not permissible to exclude a year to ensure eligibility. The **'relevant period'** for businesses is currently as follows:

- For businesses with three or more years of published annual accounts, the relevant period will be the three most recent consecutive years for which there are annual accounts. For businesses with two years of published annual accounts, the relevant period will be those two years. For businesses with one year of published annual accounts, the relevant period will be that one year.
- A business that does not have any annual accounts and has been trading for 21 months or less can also apply. The relevant period in this circumstance will be the period for which they have been carrying out a specified activity and have financial data in the 12 months prior to making an application (which must be at least six months). Such businesses will need to supply a copy of their first set of annual accounts to BEIS within 30 days of the accounts being finalised.

Businesses with fewer than two financial quarters of financial data are ineligible. For businesses with unusual accounting periods (i.e., which are longer or short than a 12-month period), we will use the period used in the published accounts.

Given the impact of the Covid pandemic on businesses we propose to use an extended relevant period of five years.

Questions

3. **Do you agree that, where relevant, we use a five year rather than three-year baseline to reflect the impact that the Covid Pandemic may have had on businesses? Please explain why.**
4. **Should we consider accepting applications from businesses with fewer than two financial quarters of financial data? Please explain why.**

Subsidy Intensity Level

Subsidy intensity is the term which denotes the ratio (as a %) between the amount of subsidy and the eligible costs. It is a criterion designed to avoid the situation where a beneficiary from a subsidy uses any excess subsidy for other purposes which may be detrimental to competition and/or to include a minimum contribution by the beneficiary to ensure that it has an incentive to carry out the subsidised activity efficiently. The current subsidy intensity for the scheme is 85%. The Trade and Co-operation Agreement and new UK Subsidy Control regime enables us to consider a change to the level of the subsidy intensity. As part of the subsidy control assessment process, we would also consider whether increasing the subsidy intensity would be proportionate to the policy objective (as subsidies should not be more than necessary to meet the policy objective).

The review is currently considering the impact of increasing the level of subsidy intensity from 85% up to 100%. By pursuing this option, the UK would see prices for EII eligible companies potentially fall more into line with the EU- 14 average. This could help mitigate carbon leakage by allowing these businesses to be more price competitive due to reduced electricity input costs.

As shown in Figure 6 below, a 95% subsidy intensity would see a reduction in average electricity costs of between £23/MWh-£37/MWh for eligible EII firms, which should serve to reduce the price disparity between the UK and its largest trading partners and as such reduce the risk of carbon leakage.

Figure 6. Illustrative example of the expected impacts of incremental changes in the level of subsidy intensity under the current eligibility criteria.

Subsidy Intensity	Price reduction for eligible EIIs
85% (current level)	£21/MWh-£33/MWh
95%	£23/MWh-£37/MWh
100%	£24/MWh - £38/MWh

The figures in the table above are based on 2020 estimated total consumption for businesses on the exemption scheme and are in 2020 prices. These figures are based on 2025 estimates, policy costs and the value of the scheme varies year on year.
They are indicative figures and may deviate from the real impact on prices by the exemption scheme. The figures in figure 5 are based on a scenario where gas prices fall from recent levels and, as a result, CFD costs increase, returning to normal levels. This means that the price impacts presented here are larger than they would be in a scenario where gas prices remain high and CFD costs remain low.

Moreover, Figure 6 illustrates that if the scheme were to increase subsidy intensity incrementally up to 100%, this would go further and lead to an expected reduction in eligible business electricity costs of £24/MWh to £38/MWh. This would bring prices further in line with Europe.

However, a subsidy intensity of 100% may lessen the incentive for businesses to invest in energy efficiency, which will support businesses to reduce their energy bills and emissions in the longer term. Energy efficiency continues to be a key pillar of our Industrial Decarbonisation Strategy[16] and Net Zero Strategy[17], and industrial energy efficiency could save 4 MtCO2e per annum in industry within the UK by 2050.

Questions

5. **Is the 85% level of exemption sufficient to meet the objectives of this scheme for your business or sector? If not, please provide supporting evidence to demonstrate why not**
6. **If we were to consider increasing the subsidy intensity level, what level would be appropriate? Please provide supporting evidence for your answer.**

Supporting Net Zero

There are significant positive changes taking place in the global efforts to mitigate climate change, which in turn will support industry's net zero transition.

In 2019, the UK Government committed the UK to achieving net zero by 2050. The target will require the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels.

In March 2021, the Government published the Industrial Decarbonisation Strategy. This set out a plan for decarbonising industry in line with the government's net zero goals. These plans were updated in the Net Zero Strategy (NZS), published in October 2021.

The Net Zero Strategy sets out an indicative Carbon Budget pathway for industry. This pathway is consistent with the expectations set out in the Industrial Decarbonisation Strategy, but goes further in specific areas, including increased fuel switching and CCUS ambitions.

The Government is committed to decarbonising industry in line with our net zero goals, while simultaneously transforming our industrial heartlands by attracting inward investment, future-proofing businesses, and securing high wage, high skill jobs.

Industry emissions have more than halved since 1990, due mainly to the changing structure of the UK's manufacturing sector, improved energy efficiency, and a shift to low carbon fuels. Despite this progress, more action is needed to achieve our net zero commitments.

[16] https://www.gov.uk/government/publications/industrial-decarbonisation-strategy, page 61 of main report
[17] https://www.gov.uk/government/publications/net-zero-strategy, page 131 of main report

Reaching net zero requires extensive, systematic changes across all industry including EIIs.

Questions

7. **Do you agree that supporting industry to decarbonise through existing decarbonisation and net zero strategies is the appropriate approach for EIIs? Please add further information to support your response**

The Renewables Obligation

This section sets out and seeks views on arrangements for publishing the final obligation level for the 2023/24 obligation period should the EII exemption be adjusted following this consultation.

Definitions

In this section, we refer to:

- The **"total obligation"** to mean the total estimated demand for Renewables Obligation Certificates (ROCs) in the UK.
- The **"obligation level"** to mean the number of UK ROCs (per megawatt hour (MWh) of electricity supplied) that each supplier must present to Ofgem in respect of electricity supplied to customers during an obligation period, in order to discharge its renewables obligation.

How the Renewables Obligation works

The Renewables Obligation (RO) incentivises the deployment of large-scale renewable electricity generation in the UK.

The RO places an obligation on UK electricity suppliers to submit the relevant number of Renewables Obligation Certificates (ROCs) to Ofgem for each megawatt hour (MWh) of electricity that they supply. This number – called 'the obligation level' – is set six months ahead of the start of the obligation period (which runs from 1 April to 31 March) and has increased annually since the RO was introduced in 2002. The RO was closed to most new generation in 2017 and replaced with the Contracts for Difference scheme but continues to provide support until 2037.

The RO is administered by Ofgem, which issues ROCs to generators accredited under the scheme in relation to the renewable electricity they generate, the technology type and year of accreditation. Generators can sell ROCs to suppliers or traders, with or without the electricity generated, as tradable commodities. Their value is a matter for negotiation between the generator and supplier/trader.

Suppliers present ROCs to Ofgem to demonstrate their compliance with the obligation.

Suppliers failing or choosing not to present enough ROCs to meet their obligation, make a payment per ROC into a buy-out fund. The money collected by Ofgem in the buy-out fund is recycled on a pro-rata basis to suppliers who presented ROCs, after Ofgem's administration costs have been deducted.

The RO works on the basis of three complementary obligations on suppliers, one covering England and Wales and one each covering Scotland and Northern Ireland. The rules on calculating the obligation level for individual suppliers in respect of electricity supplied to customers are set out below:

- For Scotland, in the Renewables Obligation (Scotland) Order 2009.
- For Northern Ireland, in the Renewables Obligation Order (Northern Ireland) 2009.
- For England and Wales, in Part 2 (Articles 7 to 13A) of the Renewables Obligation Order 2015 (ROO 2015).[18]

Calculating the obligation level for England and Wales

The methodology for setting the obligation level in respect of electricity supplied in England and Wales requires the Department for Business, Energy and Industrial Strategy (BEIS) to carry out two specified calculations (referred to as calculation A and calculation B) to determine the total obligation (in terms of the total number of ROCs). BEIS then carry out a further calculation to determine the obligation level (in terms of ROCs per MWh of electricity supplied) that applies to electricity supplied in England and Wales. At the request of the Scottish Government and the Northern Ireland Executive, BEIS also sets the obligation level for Scotland and Northern Ireland.

For calculation A (fixed target), BEIS is required to estimate the total amount of electricity (MWh) expected to be supplied to customers during the obligation period, for both Great Britain and Northern Ireland. The overall obligation (in ROCs) is then obtained by multiplying these figures by the fixed targets specified in the ROO 2015. These are 0.154 ROCs per MWh for Great Britain and 0.063 ROCs per MWh for Northern Ireland. These two totals are then added together to give calculation A.

For calculation B (headroom), the expected number of ROCs to be issued in the obligation period is estimated and then uplifted by 10 per cent.

The total obligation, which is then used to determine the obligation level, is set as one of these calculations, determined as:

- fixed target: if the fixed target (calculation A) is equal to or greater than headroom (calculation B) or
- headroom: if headroom (calculation B) is greater than the fixed target (calculation A).

The formulas for calculating the obligation level are set out in Article 13A of the ROO 2015, as amended by the Renewables Obligation (Amendment) (Energy Intensive Industries) Order 2017.[19]

[18] Part 2 of Renewables Obligation Order 2015: http://www.legislation.gov.uk/uksi/2015/1947/contents/made
[19] Renewables Obligation (Amendment) (Energy Intensive Industries) Order 2017: https://www.legislation.gov.uk/ukdsi/2017/9780111159170/contents

Calculating the total number of ROCs required for a supplier to discharge its annual renewables obligation

Under the ROO 2015, electricity suppliers must provide Ofgem with the following:

- Estimates of the amount of electricity supplied to customers in England and Wales during each month of the obligation period by the 1st June following that period.
- Figures showing the amount of electricity actually supplied to customers in England and Wales during each month of an obligation period by 1st July following that obligation period, including the total amount of EII-excluded electricity supplied in England and Wales (see EII exemption section below).

The total number of ROCs that a supplier will need to produce to Ofgem to discharge its renewables obligation is calculated after the end of the obligation period and is based on the amount of non-EII excluded electricity it has supplied to customers in England and Wales (and Scotland and Northern Ireland) during that obligation period multiplied by the obligation level for that country.

This, and Ofgem's process for validating the data provided by suppliers, is set out in more detail in Ofgem's guidance for suppliers.[20]

Energy Intensive Industries exemption

An exemption for EIIs from up to 85% of the indirect costs of the RO was implemented in England and Wales in 2017. This involved changing the methodology for calculating the obligation level and adjusting the scope of the obligation in the ROO 2015 so that the obligation level (ROCs/MWh rate) applies to:

- 100% of electricity supplied to non-EIIs and
- 15% or more of the electricity supplied to EIIs.

The estimate of total electricity supplied that is used to calculate the **obligation level** in England and Wales is estimated by removing the amount of electricity we estimate will be supplied to exempt EIIs during the obligation period. This results in a proportionately higher obligation for non EII exempt electricity to offset the exemption for eligible EIIs. This should ensure that the availability of ROCs will continue to match demand and therefore should not affect the value of a ROC.

The Scottish Government has devolved responsibility for setting the obligation in Scotland. It has made equivalent changes to the methodology for setting the obligation level and scope of the obligation in Scotland, as set out in the Renewables Obligation (Scotland) Amendment Order 2017.[21]

[20] Ofgem Guidance for Suppliers: Renewables Obligation (April 2021): https://www.ofgem.gov.uk/publications/renewables-obligation-guidance-suppliers
[21] The Renewables Obligation (Scotland) Amendment Order 2017: https://www.legislation.gov.uk/sdsi/2017/9780111036433/contents

The exemption has not been introduced for the RO in Northern Ireland at this stage. As a devolved policy matter, this would be for the Northern Ireland Executive to take forward if it so decides. As a result, the obligation level for Northern Ireland does not make any adjustments for electricity supplied to EIIs.

Publication of the 2023/24 obligation level

The obligation level must be published six months before the start of each obligation period. Therefore, as required under the ROO 2015, we will publish the obligation level for 2023/24 for England and Wales (and, with the consent of the Scottish Government and Northern Ireland Executive respectively, for Scotland and Northern Ireland) by 1 October 2022. This will be calculated using the current criteria for the EII exemption.

The obligation level published by 1 October 2022 will therefore not take into account any adjustments to the EII exemption which may result from this consultation. If, following this consultation and relevant subsidy control assessments, BEIS decides to adjust the EII exemption, BEIS would make the necessary amendments to the EII Regulations.

Depending on the time required to consider the responses to this consultation, complete subsidy control assessments and secure Parliamentary approvals, it may be possible to bring any such changes into force by March 2023 (although we cannot be certain of that outcome). If that were to be the case, then we propose that that the obligation level for the 2023/24 period published by 1 October 2022 would apply between 1 April and 30 June 2023.

We recognise that the RO can represent a significant cost for suppliers and early notification of the obligation level is important to enable suppliers to price the cost into domestic and non-domestic retail tariffs.

Therefore, we propose that, on 1 October 2022 or shortly afterwards, we will publish an estimate of how the obligation level for England and Wales (and Scotland, at the request of the Scottish Government) would be adjusted for the period between 1 July 2023 to 31 March 2024 to account for any changes to the EII exemption that may be made following this consultation (subject to Parliamentary approvals)

We would implement this by amending the ROO 2015 to give the Secretary of State the ability to revise the 2023/24 obligation during that period. Our intention would be to publish that revised and final obligation level for the period between 1 July 2023 and 31 March 2024 by no later than 31 March 2023.

As part of the amendment to the ROO 2015, we propose to include a reasonable minimum notice period of three months (i.e., from 31 March to 30 June 2023) between the revised level for the 2023/24 obligation period being published and that revised level being implemented. We would lay the amendment to the ROO 2015 at the same time as laying any amendment to the EII regulations.

Please note that the timings set out above for adjusting the obligation level for England and Wales (and if requested, for Scotland) for the 2023/24 obligation period are indicative only and are contingent on a range of factors including the completion of subsidy control assessments and Parliamentary approvals.

As a result, it may be that it is not possible to introduce a change to the extent of the EII exemption until later than the indicative timetable outlined above, with one possibility being that the change takes effect during the subsequent (24/25 RO obligation period).

However, if the EII exemption is adjusted, and assuming those adjustments have taken effect during the 2023/24 obligation period, we currently intend to publish the obligation level for the following obligation period of 2024/25 by 1 October 2023 in the usual way and to continue to follow this timetable for future obligation periods.

The EII exemption does not apply in Northern Ireland. As such, the 2023/24 obligation level for Northern Ireland will not need to be revised should the EII exemption be adjusted as a result of this consultation.

Therefore, the final obligation level for Northern Ireland for 2023/24 will be published by 1 October 2022.

Questions

8. **Should any changes be made to the EII exemption as a result of this consultation, do you agree with our proposal to adjust the 2023/24 renewable obligation level as outlined in the 'Publication of the 2023/24 obligation level' section of the consultation document? If not, please explain why and, if possible, suggest alternative approaches.**
9. **Should any changes be made to the EII exemption as a result of this consultation, do you consider that a minimum of three months' notice between the revised obligation level being published and implemented is reasonable? If not, please explain why and, if possible, suggest alternative approaches.**

Please provide any further comments on our proposals for setting the 2023/24 obligation level.

Summary of consultation questions

1. **What benefits does the electricity relief exemption scheme provide to energy intensive industries including, how the scheme addresses the issue of carbon leakage for you?**
2. **Do you agree with our proposal to replace the reference to UID with AIEA in the guidance?**
3. **Do you agree that we, where relevant, use a five year rather than three-year baseline to reflect the impact of the Covid Pandemic to businesses? Please explain why**
4. **Should we consider accepting applications from businesses with fewer than two financial quarters of financial data?**
5. **Is the 85% level of exemption sufficient to for your business or sector? If not, please provide supporting evidence to demonstrate why not**
6. **If we were to consider increasing the subsidy intensity level, what level would be appropriate? Please provide supporting evidence for your answer**
7. **Do you agree that supporting industry to decarbonise through existing decarbonisation and net zero strategies is the appropriate approach for EIIs? Please add further information to support your response**
8. **Should any changes be made to the EII exemption as a result of this consultation, do you agree with our proposal to adjust the 2023/24 renewable obligation level as outlined in the 'Publication of the 2023/24 obligation level' section of the consultation document? If not, please explain why and, if possible, suggest alternative approaches.**
9. **Should any changes be made to the EII exemption as a result of this consultation, do you consider that a minimum of three months' notice between the revised obligation level being published and implemented is reasonable? If not, please explain why and, if possible, suggest alternative approaches.**

Next steps

The consultation will remain open for a period of 5 weeks.

This document will be published on the GOV.UK website with paper copies available on request.

The team leading the review will email stakeholders to announce the launch of the consultation exercise and its publication on gov.uk and encourage them to engage with the process.

Whilst the consultation is running, the Department will engage with relevant stakeholders, including the Devolved Administrations to aid those intending to submit a response.

Following the close of the consultation period, we will carefully consider the consultation responses and the evidence received.

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.

The summary will include a list of names or organisations that responded but not individual’s names, addresses or other contact details.

The Government response to the consultation will also be published and notified to stakeholders.

Any decisions on the future of the scheme will be taken following the conclusion of the review.