Subsidy Advice Unit Report on the Network Charging Compensation Scheme (as amended in 2025)

Referred by the Department for Business and Trade

19 December 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

1. The Referral

1.1 On 7 November 2025, the Department for Business and Trade (DBT) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the Network Charging Compensation Scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates DBT's assessment of compliance (the Assessment) of the Scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to DBT. It does not consider whether the Scheme should be implemented, or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance]) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance]).

1.5 In our view, DBT has considered in detail certain aspects of the compliance of the Scheme with the subsidy control and energy and environment principles. In particular, the Assessment:

(a) sets out how the Scheme's policy objective relates to both maintaining industrial competitiveness and averting carbon leakage (Principle A);

(b) clearly explains why alternative policy options outlined would not be appropriate to achieve the policy objective (Principle E); and

(c) identifies aspects of Scheme design that can contribute to minimising negative effects of the Scheme on competition and investment within the United Kingdom (Principle F).

1.6 However, we have identified the following areas for improvement. The Assessment should:

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[1] The SAU is part of the Competition and Markets Authority.

[2] [Referral of the proposed modified Network Charging Compensation Scheme by the Department for Business and Trade - GOV.UK]

[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

(a) more clearly set out how the Scheme addresses the identified negative externality from carbon emissions (Principle A);

(b) explain in more detail the basis on which DBT concluded that the 90% compensation rate represents the minimum necessary to achieve the policy objective (Principle B);

(c) analyse more comprehensively the ongoing impact of the Scheme on competition and investment, including by looking at the impact that the Scheme has had to date (Principle F);

(d) set out a more detailed balancing exercise that considers a wider range of negative impacts, including geographic and distributional effects, impacts on competition and impacts on international trade or investment (Principle G); and

(e) explain more systematically how the Scheme complies with Principle A of the Energy and Environment Principles.

1.7 We discuss these areas below, along with other issues, for consideration by DBT in finalising its assessment.

The referred scheme

1.8 The Scheme was introduced in 2024 as part of the British Industry Supercharger (BIS) package of measures. BIS was designed to reduce industrial electricity prices for eligible Energy Intensive Industries (EIIs) in Great Britain, which represent over 300 businesses[4] in sectors such as steel, metals, chemicals and paper. It comprised:[5]

(a) a 100% exemption level provided via the EII Exemption Scheme on Feed in Tariffs, Contracts for Difference and the Renewables Obligation, increased from the previous 85% exemption level;

(b) a 100% exemption from the indirect costs of funding Capacity Market Charges; and

(c) a compensation on 60% of network charging costs[6] through the Scheme.[7]

[4] British Industry Supercharger gives huge boost to UK businesses - GOV.UK
[5] See 2023 SAU Report, paragraph 1.7 for more detail.
[6] Network charges are charges paid by users of the electricity network, such as electricity suppliers, to the electricity system operator. These include charges intended to cover the costs of building, maintaining and balancing the system.
[7] Network charging costs incurred from April 2024 onwards were eligible for compensation in arrears from April 2025.

1.9 The SAU evaluated DBT's assessment of compliance of the BIS package of measures (the 2023 BIS Assessment)[8] in the SAU's report[9] on the British Industry Supercharger subsidy scheme in 2023 (the 2023 SAU Report).

1.10 Following a public consultation,[10] DBT propose to modify the Scheme, increasing the level of compensation provided on network charging costs from 60% to 90% from April 2026.[11] DBT explained that, in their view, the planned modification is not a permitted modification under section 81(3) of the Act.[12] DBT is not proposing any changes to the EII Exemption Scheme or the Capacity Market Charges exemptions. The Assessment, and therefore this report, only relates to the Network Charging Compensation Scheme as modified, rather than the BIS as whole.

1.11 DBT estimates that the current annual value of the Scheme is between £190 million and £260 million and is expected to increase to between around £310 and £420 million per year following the modification, based on current EIIs' electricity costs.

1.12 The Scheme's eligibility criteria are the same as the criteria of the wider BIS package of measures. To be eligible, EII businesses will need to pass both a sector-level and business level test. The sector-level test checks whether some or all of the products the business manufactures fall within energy and trade intensive sectors. The business-level test relates to the proportion of electricity costs that the business faces as a percentage of their gross value added. DBT intend to carry out a review of the analysis which underpins eligibility for the measures in 2026.

1.13 DBT explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.[13] In particular, DBT expects to give subsidies exceeding £25 million.

[8] DBT subsequently revised the 2023 BIS Assessment following the publication of the SAU Report.
[9] 2023 SAU Report on the British Industry Supercharger scheme.
[10] Proposed uplift to the Network Charging Compensation Scheme for energy intensive industries (EIIs): government consultation response - GOV.UK
[11] The NCC Scheme provides compensation 12 months in arrears from costs being incurred. Beneficiaries are expected to receive their first payments through the new 90% compensation rate after April 2027.
[12] Under Section 81(1) of the Act, the modification of a scheme is to be treated as the making of a new scheme for the purposes of the application of the subsidy control requirements (unless the modification is a permitted modification within the meaning of Section 81(3)).
[13] Within the meaning of regulation 3 of The Subsidy Control (Subsidies and Schemes of Interest or Particular Interest) Regulations 2022 and The Subsidy Control (Subsidies and Schemes of Interest or Particular Interest) (Amendment) Regulations 2025 which set out the conditions under which a subsidy or scheme is considered to be of particular interest.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DBT.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[14]

Policy objectives

2.3 The Statutory Guidance sets out that public authorities may only give subsidies to pursue a specific policy objective. The objective must be one which remedies a market failure or addresses an equity concern. There may be multiple policy objectives to be achieved by a single scheme, provided that they all address a market failure, equity concern, or both.[15]

2.4 The Assessment states that the policy objectives of the Scheme remain the same as those outlined in the 2023 BIS Assessment,[16] namely bringing electricity costs closer in line with those in competitor countries to increase industrial competitiveness while averting carbon leakage, the closure of EII's and the movement of firms overseas.

2.5 DBT clarified to us that it made amendments to the 2023 BIS Assessment following the publication of the 2023 SAU Report to clarify that the policy objectives of the BIS package of measures relate both to the mitigation of carbon leakage as well as maintaining UK industrial competitiveness in relation to both comparator European and wider international competitors.[17] The 2023 BIS

[14] See Statutory Guidance, paragraphs 3.33–3.59 and the SAU Guidance, paragraphs 3.6–3.10 for further detail.
[15] See Statutory Guidance, paragraphs 3.33-3.35.
[16] See 2023 SAU Report, paragraphs 3.4 to 3.8 for further detail.
[17] In the 2023 SAU Report (paragraph 3.9(a)) we stated that the 2023 BIS Assessment could clarify whether the policy objective relates solely to mitigating the risk of carbon leakage or more broadly aims to 'mitigate the risk of disinvestment and protect jobs in key industries', and to 'encourage decarbonisation and electrification' in the long-term.

Assessment explained that the objective is to bring electricity costs for GB-based EII in line with the electricity costs in comparable competitor countries with similar economies and climate ambitions without seeking to undercut them.

2.6 In our view, the Assessment sets out clearly how the Scheme's policy objective relates to both maintaining industrial competitiveness and averting carbon leakage. However, it could clarify the extent to which the policy objective of the Scheme is distinct from the policy objectives of the wider BIS package of measures. In this context, it could also clarify whether the Scheme's policy objective also includes encouraging decarbonisation and electrification in the longer-term, which was included in the policy objective for BIS in 2023 but not expressly mentioned as a policy objective in the Assessment (although it is discussed later, see paragraphs 2.25 and 2.61).

Market failure

2.7 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.[18]

2.8 The Assessment states that the market failures the Scheme seeks to address are the same as those set out in the 2023 BIS Assessment, which summarised the market failures as follows:

(a) A negative externality from carbon emissions, stemming from the production of businesses, that these firms do not internalise. This negative externality is the damage caused to air quality and the environment through carbon emissions.

(b) An international coordination failure with governments having different levels of net zero ambitions, with some jurisdictions having 'less stringent environmental regulations', 'lower carbon/policy costs' or more 'generous subsidies for existing policy costs than GB'.

(c) GB EIIs are disproportionately impacted by high electricity prices 'due to the volume of electricity they consume and their inability to pass on those costs to their customers 'as they operate in highly internationally traded sectors'. This risks GB EIIs being undercut by foreign competitors facing 'lower carbon prices and therefore lower electricity prices'.

(d) Capital is mobile and will relocate to jurisdictions where it can earn the highest profits, potentially leading to greater imports of energy intensive goods or production relocating to regions with lower decarbonisation policy

[18] Statutory Guidance, paragraphs 3.36–3.51.

costs. This could lead to 'an increase in emissions-intensive production and greater global emissions' ie carbon leakage.

(e) The two market failures of negative externality of carbon emissions and the coordination failure of governments worldwide to agree a coordinated response to the social costs of carbon emissions through equalised carbon costs therefore put GB based EIIs at an international competitive disadvantage on electricity prices. The Assessment argues that unless these are addressed this could lead to increased global emissions through carbon leakage as production moves to more emissions-intensive jurisdictions.

2.9 The 2023 BIS Assessment also presents evidence of the risk of carbon leakage and links this to evidence of sustained higher GB industrial electricity costs. It considers the international electricity price gap for GB EIIs in comparison to EU and various other countries, as well as price gaps due to environmental regulations and disparities in subsidies.

2.10 The Assessment provides additional evidence of ongoing energy price pressures experienced by EIIs since the Scheme was implemented and the increased risk of imports from countries with lower electricity costs and environmental standards than GB including China, Turkey and India.

2.11 In our view, the Assessment clearly demonstrates the existence of an international electricity price gap and its impact on EIIs. We acknowledge that negative externalities from carbon emissions are a well-established market failure. In our view, the Assessment provides useful context on the challenges facing EIIs arising from high domestic electricity prices, some of which relate to the negative externality. However, we consider that the Assessment should explain:

(a) the extent to which the identified negative externality contributes to the international electricity price gap; and

(b) how the Scheme will help address this negative externality, as it does not directly target policy costs[19] linked to carbon emissions (which are rather the subject of the EII Exemption Scheme under the BIS).

2.12 We do not consider that the 'coordination failure' identified constitutes a market failure for the purpose of Principle A, as it relates more to a lack of regulatory coordination than considering the outcome of market forces alone. However, we acknowledge that the description of the lack of regulatory coordination provides relevant context for the Scheme.

[19] Policy costs refer to additional charges on the energy bills of households and businesses, set by government, which are used to fund energy policies that support grid decarbonisation, or to ensure security of supply.

2.13 The Assessment could also consider whether the Scheme helps address other market failures linked to UK competitiveness, for example positive externalities relating to ensuring security of supply of products that are strategically important to the UK economy.

Appropriateness

2.14 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[20]

2.15 The Assessment sets out the view that the Scheme, as part of the wider BIS package of measures, remains the most appropriate instrument for addressing the identified electricity price gap faced by EIIs. It explains that evidence on electricity prices suggests that maintaining the 60% compensation rate without taking any further mitigating action to reduce prices would likely lead to disinvestment in GB-based EIIs and offshoring of production.

2.16 The Assessment then considers alternative options to the Scheme and refers to the rationale provided in the 2023 BIS Assessment to explain why they were not considered appropriate. These alternatives include (1) an exemption from network charging costs for EIIs, which was rejected because it was considered complex to implement and likely to be very small, (2) grants and loans, which were rejected because they would not provide real time support to recipients, (3) support for development of private wire network development or a sector level purchase power agreement, which were rejected because they did not guarantee a certain level of cost reduction and would also take at least five years to implement; and (4) regulation amending the network charging codes, which was rejected because it may not deliver the policy objective and the delivery time would be too long.

2.17 In our view, the Assessment (drawing on the rationale outlined in the 2023 BIS Assessment) clearly explains why the options outlined would not be appropriate to achieve the policy objective. However, the Assessment could focus more on options that do not involve a subsidy, which are more directly relevant to demonstrate compliance with Principle E.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.18 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something

[20] Statutory Guidance, paragraphs 3.53–3.59.

that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[21]

Counterfactual

2.19 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[22]

2.20 The Assessment sets out a counterfactual scenario where direct compensation to EII's on eligible network costs is maintained at 60%. The Assessment states that in the short term, GB based EIIs would have a competitive disadvantage of higher electricity prices in relation to international competitors. It explains that this exposes them to imports from competitors based in countries with lower energy costs and most likely lower levels of climate regulation, and is likely to lead to reduced investment, production and a decline in job creation.

2.21 In the longer term, the Assessment anticipates a decrease in production and therefore gross value added and some EIIs would face an increased risk of closure due to higher electricity costs preventing them from competing internationally. It states that during the recent consultation,[23] firms advised that the disparity between GB and EU electricity prices have led them to disinvest and there is a risk that this trend will continue.

2.22 In our view, the Assessment describes at a high-level what would likely happen to GB based EIIs if the compensation rate offered through the Scheme is maintained at 60% relief and not increased to 90%. However, for completeness, the Assessment should also consider what would likely happen in 'a no subsidy scenario' where the Scheme is not implemented.[24]

2.23 In addition, the Assessment could consider in more detail the extent to which the risk of disinvestment, closures, relocation and job losses is directly linked to the higher electricity costs rather than other factors.

[21] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 3.11–3.13 for further detail.
[22] Statutory Guidance, paragraphs 3.63–3.65.
[23] Proposed uplift to the Network Charging Compensation Scheme for energy intensive industries (EIIs): government consultation response - GOV.UK
[24] Statutory Guidance, paragraphs 3.63-3.64.

Changes in economic behaviour of the beneficiary and additionality

2.24 Subsidies must bring about something that would not have occurred without the subsidy.[25] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').[26] For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.[27]

2.25 The Assessment sets out that the BIS works as a package of measure to decrease EIIs electricity prices and make GB a more attractive place to invest, decrease the risk of carbon leakage, increase production for eligible firms and incentivise EIIs to decarbonise where high electricity prices are a barrier to decarbonisation.

2.26 The Assessment relies on the 2023 BIS Assessment to show how the BIS would increase GB competitiveness, investment and production in EIIs and incentivise decarbonisation.[28] It explains that, as the Scheme will increase the level of relief offered through the BIS, the conclusions of the 2023 BIS Assessment are still relevant.

2.27 In our view, the Assessment provides some detail as to how the Scheme, as part of the BIS package of measures, contributes to additional benefits that would not have happened otherwise. However, it should more clearly outline the effect the Scheme itself has on the economic behaviour of beneficiaries, and acknowledge and assess any risk of deadweight (ie the portion of subsidies awarded under the Scheme that will not achieve the policy objective).

2.28 The Assessment could also clarify why compensating businesses for electricity costs, which is a day-to-day expenditure, is justified in this instance, in line with the Statutory Guidance.[29]

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.29 Under Step 3, public authorities should consider compliance of a subsidy with:

(a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

[25] Statutory Guidance, paragraph 3.67.
[26] Statutory Guidance, paragraphs 3.66–3.70.
[27] Statutory Guidance, paragraphs 3.71–3.73.
[28] See 2023 SAU Report, paragraphs 3.27-3.28 for further detail.
[29] Statutory Guidance, paragraphs 3.69 and 3.70.

(b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.[30]

Proportionality

2.30 The Assessment explains that the Scheme is proportionate to achieve the policy objective because it targets an electricity price gap at a level to reduce the risk of carbon leakage and incentivise electrification where applicable, reducing energy prices to a commensurate level with GB's nearest comparable neighbours without seeking to undercut them.

2.31 It outlines that the proposed uplift of the Scheme to 90% is considered proportionate to narrow the electricity price gap with competitor countries and reduce the risk of carbon leakage. The Assessment refers to analysis showing that GB-based EIIs continue to face higher electricity costs than comparable neighbouring countries even with existing support. It cites evidence from the NCC Scheme uplift consultation with EII stakeholders, indicating that these costs are a major impediment to investment and decarbonisation for EIIs. The Assessment notes that aligning relief levels with those available in competitor countries that have similar climate ambitions avoids undercutting competitors while maintaining competitiveness and supporting wider industrial strategy and net zero objectives. It explains that the 90% uplift is expected to bring total relief under the NCC Scheme to £23-31/MWh per eligible company, which it states is set to sufficiently reduce electricity prices and mitigate the risk of carbon leakage.

2.32 The Assessment also explains that the combination of sector-level and business-level tests ensures that subsidies are given only to the most energy-intensive businesses in the most energy-intensive sectors facing high trade intensity.

2.33 In our view, the Assessment has considered some aspects of how the Scheme is proportionate and limited to the minimum necessary to achieve its specific policy objectives, for instance, by discussing why it was deemed necessary to increase the compensation rate. However, the Assessment should:

(a) set out why lower compensation rates would be insufficient to achieve the policy objective(s);

(b) explain why a uniform rate was chosen rather than, for example, a rate tailored to individual business circumstances; and

(c) take into account the impact of other support measures aimed at similar objectives, such as energy cost reduction or competitiveness addressing the

[30] See Statutory Guidance paragraphs 3.75–3.112 and the SAU Guidance, paragraphs 3.14–3.18 for further detail.

same sectors, and whether this level of total support is proportionate to achieve the policy objective(s).

Design of subsidy to minimise negative effects on competition and investment

2.34 The Assessment explains that the Scheme's sector-level test ensures that only sectors facing significant international competitive pressures and high electricity costs are eligible, while the business level test help target companies whose electricity costs represent a substantial proportion of their economic output. It outlines that the combination of these two tests means that in practice only a small percentage of businesses within eligible sectors receive support. The Assessment explains that the Scheme is open to all eligible EIIs that pass both tests.

2.35 The Assessment states that the Scheme is the most appropriate instrument to provide relief while minimising distortive impacts on the network charging framework particularly as it does not interfere with how network charges are regulated by Ofgem and provides suppliers with sufficient time to prepare for the uplift in the EII Support Levy.[31]

2.36 The Assessment explains that the Scheme will continue to be delivered annually, with DBT monitoring price reductions and reviewing the need for support every five years.

2.37 The Assessment explains that DBT will ensure that subsidies are ringfenced towards costs related to network charges by requiring beneficiaries to provide evidence of network costs and using verification mechanisms and compliance audits to ensure that, where companies produce both eligible and ineligible products, they can only claim support for the former.

2.38 In our view, the Assessment has identified aspects of Scheme design that can contribute to minimising negative effects of the Scheme on competition and investment within the United Kingdom. However, the Assessment could more clearly articulate how these features represent the least distortive approach to achieving the policy objective.

Assessment of effects on competition or investment

2.39 The Assessment recognises that the electricity price reduction could give beneficiaries a competitive advantage over non-eligible firms in the same sectors. The Assessment notes that this could entrench the market position of major firms; however, it also notes that this does not prevent currently non-eligible firms in

[31] Which will be charged at a higher rate in April 2027.

these sectors from applying and becoming eligible if they pass the business level test criteria in the future.

2.40 DBT clarified to us that Northern Ireland energy-intensive industries are not eligible for support under the Scheme. The 2023 BIS Assessment states that the BIS is unlikely to cause significant displacement of Northern Ireland purchases from GB, citing the limited number of potential beneficiaries of the Scheme (circa 300 companies) and the fact that it is designed to align GB prices with EU competitors rather than undercut them.

2.41 In our view, the Assessment identifies some impacts on competition that the Scheme will have. However, while an in-depth evaluation of the market characteristics (as set out in the Statutory Guidance) for each potentially affected market may not be commensurate for a scheme covering a multitude of markets, the Assessment should nonetheless provide a more comprehensive analysis of the ongoing impact of the Scheme on competition and investment within the UK, including by looking at the impact that the Scheme has had to date. This could be achieved by:

(a) examining the potential competitive impacts in the sectors most heavily represented among beneficiaries;

(b) considering the impacts of supporting loss-making businesses on competition within eligible sectors;

(c) considering the impacts on the competitive landscape and the prospects of entry and exit that may arise from supporting large firms who may enjoy incumbency advantages and benefit from high barriers to entry;

(d) considering the unintended consequences that the business-level test might have on energy usage of firms within the same sector;

(e) further assessing any competitive impacts on Northern Ireland EIIs, including the impact that increasing the compensation rate may have on these firms for instance by quantifying the electricity cost differential between GB and Northern Ireland; identifying sectors where Northern Irish and GB EIIs compete directly; and assessing potential competition and investment effects.

Step 4: Carrying out the balancing exercise

2.42 Under step 4 (principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[32]

2.43 The Assessment explains that DBT has conducted a cost-benefit analysis of the Scheme which calculated its benefit-to-cost (BCR) ratio and net present value before the Scheme was modified. It notes that the BCR represents 'very high' value for money.

2.44 The Assessment sets out the potential benefits included in the value for money analysis, including employment gains, profits retained within the UK, increased investment and avoided firm closures. It then lists the costs that were considered, including increased greenhouse gas emissions and air quality damage (due to increased consumption related to lower electricity prices) and administration costs associated with operating the Scheme.

2.45 The Assessment explains that the current analysis of the Scheme at 60% compensation demonstrates a strong and credible foundation for 'scaling up'. It explains that further analysis is underway to assess the impact of increasing the compensation rate to 90%, but moving from 60% to 90% compensation is expected to generate commensurate or greater returns, as incremental costs remain modest relative to incremental benefits.

2.46 The Assessment concludes that increasing the compensation rate from 60% to 90% is essential to close the electricity price gap with key competitors, reduce carbon leakage and safeguard UK industrial competitiveness.

2.47 In our view, the Assessment helpfully considers some of the benefits and costs associated with the Scheme using DBT's BCR analysis of the Scheme with a 60% compensation rate. However, while DBT expects the Scheme's benefits to rise proportionally as prices are reduced further, to help demonstrate compliance with Principle G, DBT should update its analysis of the Scheme with a 90% compensation rate and consider its findings within the Assessment.

2.48 In addition, while a BCR analysis can provide helpful information that supports a balancing exercise, Principle G requires public authorities to undertake a specific balancing exercise (see paragraph 2.42). Consequently, as well as discussing the BCR analysis, the Assessment should consider the specific requirements of Principle G. In particular, it should:

(a) ensure that all aspects of the policy objective are considered when setting out the benefits of the Scheme;

[32] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 3.19–3.21 for further detail.

(b) consider the Scheme’s geographic and distributional effects, impacts on competition (see paragraph 2.41 for further detail on what should be considered) and impacts on international trade or investment; and

(c) update its reasoning and conclusion on whether the Scheme’s benefits outweigh its negatives once these have been accounted for.

Energy and Environment Principles

2.49 This section sets out our evaluation of the Assessment against the energy and environment principles.[33]

2.50 DBT has conducted an assessment of the Scheme against Principles A and B. We have not identified any other principle that should have been addressed as part of the Assessment.

Principle A: Aim of subsidies in relation to energy and environment

2.51 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.[34] The Statutory Guidance states that ‘energy system’ includes interactions between decarbonisation of energy sectors.[35]

2.52 The Assessment sets out that the Scheme will provide relief to eligible EIIs to ensure that they can remain competitive by making electricity costs for those sectors more affordable and in line with costs in comparable EU countries.

2.53 The Assessment explains that the costs removed from the bills of eligible EIIs will be redistributed to all other energy users, including households and non-eligible businesses. However, it also explains that the government will bear down on costs across the energy system to ensure that households and non-eligible businesses do not see a net increase in their electricity bills as a result of the uplifted compensation rate of the Scheme. The Assessment discusses ways in which this could be achieved, such as by amending the inflation indexation of the Renewables Obligation and the strengthening of UK carbon pricing.[36]

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[33] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.
[34] Statutory Guidance, paragraphs 4.19–4.28.
[35] Statutory Guidance, footnote 47.
[36] In October 2025, the Department for Energy Security and Net Zero published a consultation seeking views on the proposal to amend the inflation indexation of the Renewables Obligation (Renewables Obligation (RO) scheme: indexation changes - GOV.UK).

2.54 The Assessment concludes that impact on other electricity users will be limited to what is necessary to mitigate the risk of carbon leakage, safeguard jobs in strategic sectors and enable decarbonisation through electrification in the long term.

2.55 The Assessment considers that the Scheme is consistent with both limbs of Principle A.

2.56 In our view, the Assessment provides some information on how the Scheme complies with the energy limb of Principle A of the energy and environment principles. However, to help demonstrate how the Scheme is consistent with delivering an affordable energy system, it should more clearly explain why it is expected that households and non-eligible businesses will not see a net increase in their electricity bills as a result of the uplift to the Scheme's compensation rate. While potential approaches are mentioned, the Assessment should specify the actions government will take, their associated savings and clarify whether these measures are being made expressly to bear down on the costs that result from the Scheme.

2.57 Moreover, as well as discussing how the uplift to the compensation rate affects other electricity users, the Assessment should consider how the Scheme as a whole is consistent with delivering an affordable energy system.

2.58 In addition, while the Assessment states that the Scheme is consistent with the environmental limb of Principle A of the energy and environment principles, it should explain why this is the case. As the Assessment acknowledges that the Scheme will lead to increased greenhouse gas emissions and air quality damage under Step 4, it should set out how the Scheme will result in an increase in the level of environmental protection compared to what would have happened otherwise. To do this it could use information included elsewhere in the Assessment, including information discussed under Principle B of the energy and environment principles (see paragraphs 2.60 to 2.61), to:

(a) further explore the relationship between the Scheme and the incentives on EIIs to decarbonise their businesses through electrification in the longer term; and

(b) consider and evidence the Scheme's overall effect on global carbon emissions.

Principle B: Beneficiary's liabilities as a polluter

2.59 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.[37]

2.60 The Assessment explains that the environmental cost of not providing support would potentially be far greater than the environmental cost of increasing relief on network charges if carbon leakage occurs and this leads to increased global emissions as a result. It refers to evidence that EII sectors are seeing increased competition from overseas competitors, with a rising proportion of imports being sourced from countries with lower climate standards than the UK.

2.61 The Assessment also explains that lower electricity prices for EII's also provides greater incentive and opportunity to shift to electrification longer term by addressing a key barrier to electrification (ie cost).

2.62 In our view, the Assessment has provided some detail regarding the overall environmental impact of the Scheme. For completeness, it could specifically set out how receipt of a subsidy under the Scheme does not relieve the recipient from any liabilities arising from its responsibilities as a polluter in line with the Statutory Guidance.[38]

Other Requirements of the Act

2.63 DBT confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

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[37] Statutory Guidance, paragraphs 4.29–4.34.
[38] Statutory Guidance, paragraphs 4.33.