

## Energy Intensive Industries: relief from the indirect costs of renewable energy schemes

### Response from the **Energy Intensive Users Group**

1. Should the level of eligibility threshold for the exemption schemes be maintained at 20% electricity intensity? If yes, please explain why. If no, please provide evidence of the existence and extent of any competitive distortions that would suggest that the current electricity intensity threshold should be changed.

(We invite businesses to provide company-specific data, in confidence, using the tables in Chapter 5).

*EIUG has long argued that the 20% electricity intensity threshold is too high and significantly out of line with the equivalent relief measures available to many EII competitors elsewhere in Europe. These points appeared to have been acknowledged by ministers some years ago, so we very much welcome the publication of this long awaited consultation and the expectation that long awaited reforms may at last go ahead next year.*

*BEIS is well aware of the disparity in electricity supply prices for UK EIs compared with those of our EU competitors, both before and after compensation measures are applied. The current compensation package has obviously helped greatly in narrowing that gap, but as this consultation implicitly acknowledges, more will need to be done to level the playing field for UK EIs. BEIS is also aware of specific instances where one UK manufacturer benefits from relief that is not available to a UK direct competitor producing the same product (e.g. glass bottles), as well as instances where UK producers are disadvantaged relative to their EU direct competitors. Such disadvantages necessarily increase the risk of distorting trade both within the UK and between the UK and EU member states. Widening eligibility cannot entirely eliminate the risk, but it would significantly reduce the number of instances where the disparity in electricity supply costs is a material factor. EIUG is not in a position to provide product specific information on trade distortion, although we have encouraged our members to do so in response to and in advance of this consultation.*

*EIUG believes BEIS should aim to ensure that the competitive position of those currently eligible to receive relief should not be undermined by widening eligibility to others, mindful of the maximum relief available to certain highly vulnerable competitors in Germany and elsewhere. We also believe that BEIS should recognise that renewable cost relief is the only part of the support package available to trade exposed, electricity intensive companies in sectors where EU state aid rules prevent them from receiving compensation for the indirect impact of carbon costs (i.e. the impact of EU ETS and UK Carbon Price Support) despite these measures having a similarly significant impact as renewable policies on the cost of their electricity supplies, and hence their competitiveness. It is especially important that these companies are not inappropriately excluded from renewable cost relief as well.*

2. If the current 20% electricity intensity threshold is lowered, should it be set at 17%, 15% or 10%? Please provide any explanation or information available to support your view.

*EIUG supports the threshold being set at the lowest level necessary to minimise distortion of trade between UK energy intensive manufacturers and their UK-based direct competitors, or their direct EU competitors. We therefore support the 10% threshold, unless robust evidence emerges that the redistributive impact would materially affect the competitiveness of other business sectors or fuel poverty in the domestic sector. BEIS' impact assessment suggests this is unlikely to be the case – indeed, the impact of a 10% threshold is estimated to be a 0.7% increase in bills for households and no more than 1% increase for ineligible EIs.*

3. Do you agree with our proposal not to include options below 10% electricity intensity in the consideration of a lower eligibility threshold for exemption schemes? Please provide any explanation or information available to support your view.

*EIUG believes the 10% electricity intensity threshold is arbitrary and that a lower threshold should not be ruled out if sufficient evidence becomes available to justify wider eligibility to prevent trade distortion. Nevertheless, we recognise that measures to improve UK industrial competitiveness must be balanced against the need to contain the redistributive impact of exemptions on other users, and that a 10% threshold could significantly reduce trade distortion relative to the status quo.*

4. Should the aid intensity be reduced for EIs in a lower tier of electricity intensity to manage costs for other consumers? Please provide any explanation or information to support your view.

*EIUG believes the maximum level of relief should be available to all companies to companies that need it, and does not therefore favour reducing aid intensity for less intensive EIs.*

5. If the aid intensity is reduced for EIs in a lower tier of electricity intensity, do you agree with the structure set out in paragraph 4.8? If no, please explain what structure you would prefer.

*EIUG does not support tiering generally or the specific structure set out in para 4.8. But if forced to express a preference between the options, we note that Option 2C would maximise the range of EIs eligible to receive at least some level of relief, however inadequate, and thus minimise the risk of intra-UK or UK-EU trade distortion.*

6. Do you have any other suggestions for achieving the right balance between supporting EIs and managing the cost to other consumers? If so, please tell us.

*The government should take note of equivalent policy in neighbouring EU member states, where recognition of the need to damage competitiveness of trade exposed EIs is common practice, and the proportionate burden of policy costs borne by the industrial sector is much lower than in the UK. Greater attention to reducing the overall burden of climate policy costs (as advocated in the Helm review), combined with appropriately targeted EI cost relief, is the most effective way of reducing costs to other consumers.*

11. Do you have any other comments on the Impact Assessment?

*We are pleased the IA acknowledges that UK industrial users face the highest electricity supply prices in Europe, and that a significant part of the difference is due to the level and distribution of renewable subsidies such as the RO, FIT and CFDs. We note that indirect costs of the renewable programme (e.g. increased system balancing and capacity market costs to accommodate intermittent renewables, costs of reinforcing and extending the distribution networks to accommodate distributed generation, offshore transmission infrastructure, etc.) are not included in the IA. We also note that the IA shows the redistributive impact of widening EI relief is very low in % terms for all options under all scenarios.*

12. Do you agree with the proposal not to redistribute the value of recovered over-exemptions back to suppliers of other consumers (who could pass on the savings to consumers)? Please set out your reasons

*EIUG recognises that it may be impractical and/or inefficient to redistribute the value of over-exemption to other consumers, especially where the cost and complexity of implementing a redistribution mechanism are significant and the value of any potential savings is likely to be relatively small. If the*

*value of savings turn out to be much greater than expected, however, it would strengthen the case for a redistribution mechanism so consumers can benefit from the savings to which they ought to be entitled.*

13. Do you agree with the proposal that, where a meter is not in use for the entire preceding calendar year, the exemption proportion on the EII certificate should be based on the period of at least three months prior to application throughout which the meter was in use? If not, please explain why.

*EIUG agrees with this proposal.*

14. Do you agree with the proposal that, where a meter is not in use for the entire preceding calendar year, the exemption proportion should be reviewed on receipt of each quarterly report until it is based on a total of at least 12 months of available data? If not, please explain why.

*EIUG agrees with this proposal.*

15. Do you agree with the proposal that, where a business starts to share a meter or stops sharing a meter, the exemption proportion on the EII certificate should be based on the period of at least three months since the change in meter-sharing arrangement? If not, please explain why.

*EIUG agrees with this proposal.*

16. Do you agree with the proposal that, where a business starts or stops making an ineligible product using electricity from a meter, the exemption proportion on the EII certificate should be based on the period of at least three months since the change in meter use? If not, please explain why.

*EIUG agrees with this proposal.*

17. Do you agree with the proposal that, for existing businesses, certificates should expire at the end of June or, where this would result in the certificate expiring after 6 months or less, the end of the following June? If not, please explain why.

*EIUG agrees with this proposal.*

18. Do you agree with the proposal that businesses must report to BEIS before the last working day in the months of March, June, September and December on whether they are still carrying out the 'specified activity' (ie making the eligible product) to which the certificate relates? If not, please explain why.

*EIUG agrees with this proposal.*