

Consultation on an exemption for EIIIs from the costs of the RO and FITs

Response from the Energy Intensive Users Group

1 Do you agree with the main benefit to EIIIs of implementing the exemption through changes to the RO and FIT legislation being greater certainty as well as more accurate and faster support, compared with compensation? Please provide evidence and a quantification of the impact.

EIUG strongly endorses the principle that EIIIs should be exempted from renewable subsidy costs to the maximum extent possible under EU state aid rules. Our members are in direct competition with a large number of companies and sites receiving more-widespread support for renewables costs in Germany and in other EU Member States. Exemption delivers a clear cash flow benefit to eligible EIIIs, the level of relief varies with energy consumption automatically, and it is potentially less vulnerable to political risk than compensation funded through departmental budgets.

It is entirely a matter for government however to decide whether to adjust the UK's highly ambitious and expensive unilateral climate policy targets to take account of their unaffordability to trade-exposed EIIIs, to make up for the resultant shortfall in revenue through general taxation, or to simply apply these costs to other energy users in the hope they will not complain too much (or suffer, in the case of vulnerable household consumers).

2 For non-exempt businesses, to what extent do you think the estimated increase in electricity bills will affect competitiveness and decisions regarding output, employment and investment? Please provide evidence and a quantification of the impact.

The high eligibility threshold currently applied for RO/FIT compensation leaves a large number of UK EIIIs at a significant competitive disadvantage with respect to their EU competitors, and (in the absence of a resolution to the second state aid case) to their direct UK competitors that are eligible for compensation. These EII companies are not only denied the relief they need to remain competitive but they are also set to face an additional burden as a result of the RO/FIT exemption and consequent redistribution of renewable subsidy costs. EIUG therefore believes the threshold should be dropped from the moment the RO/FIT exemption comes into force so that more of these EIIIs can compete on a level playing field. We are pleased to note that this approach has also been advocated by BIS ministers. EIUG has already provided BIS with evidence on the types of EII companies that are being denied the relief they need under the current threshold, along with related information on competitiveness, output, employment and investment.

3 For householders, what will be the impact of the estimated increase in electricity bills?

EIUG cannot easily comment on the scale of the likely impact of the exemption on household bills, although we suspect it will be lower than assumed in the Impact Assessment as a result of recent and expected industrial closures and production cutbacks in steel, paper and other EII sectors. Nevertheless, we recognise that the impact could be more than trivial for some consumers and government should therefore consider what additional means of support might be required to offset the impact on the most vulnerable households.

4 We propose to make the RO and FIT scheme exemption available to the same EIs that are eligible for the RO and FIT scheme compensation scheme and the CFD exemption. Do you agree? If not, what alternatives should be considered?

We support the general principle that availability for RO/FIT exemption, RO/FIT compensation and CFD exemption should be the same wherever possible within the UK. We note however that different arrangements apply in Northern Ireland and it may therefore be necessary to tailor the arrangements so that EIs located there are not disadvantaged.

5 Is changing the methodology for calculating the obligation level and scope of the obligation level the appropriate method to apply the exemption? If not, what alternatives could be used and why?

No comment

6 Do you agree with our proposals in Annex A for (i) changing the methodology for calculating of the total obligation and (ii) the obligation level for individual suppliers for England and Wales? If not please explain why.

No comment

7 Do you agree with our proposals for changing the scope of the renewables obligation? If not please explain why.

No comment

8 For the setting of the RO we require a robust estimate of exempt electricity supplied to EIs (see Annex A). Do you agree that we should be taking this directly from energy suppliers to EIs? If not, please explain why and provide evidence.

We agree that, in general, this information should be taken directly from energy suppliers. DECC will need to consider what arrangements might need to be made where a supplier is only aware of the aggregate energy supplied to an ineligible lead EI where some of that energy is ultimately used by a co-located eligible EI (or vice versa). This is an issue at a number of steel and chemical sites, and possibly others too.

9 Do you agree with the proposed changes to the information that suppliers are required to provide to allow Ofgem to calculate the total number of ROCs required for a supplier to discharge its annual renewables obligation after the end of the obligation year? If not please explain why.

No comment

10 Do you agree with our proposed changes to the arrangements for setting the obligation level for England and Wales for 2017/18 in the event that DECC decides to implement the exemption? If not please explain why and if possible suggest alternative approaches.

No comment

11 We propose to amend the manner in which FIT costs are apportioned between suppliers to take account of EII exempt electricity. Do you agree? If not, what alternatives should be considered?

EIUG cannot comment on the detail of the proposed apportionment, but we do believe the loophole whereby suppliers can exploit the FIT exemption for imported electricity needs to be addressed.

12 We propose to amend the FITs Order to prevent a supplier having a negative market share as a result of the dual application of the exemptions. Do you agree? If not, what alternatives should be considered?

No comment

13 Are the monitoring and transparency arrangements appropriate? Do you agree?

No comment

14 We propose for Ofgem to access data used by the LCCC to administer the CFD exemption in order to validate the data on EII exempt electricity supplied by suppliers. Do you agree? If not, what alternatives should be considered?

No comment

15 We do not propose to regulate to require that suppliers pass through the exemption to eligible businesses. Do you agree? If not, what alternatives should be considered?

EIUG believes that suppliers must provide all EIIs with comprehensive, timely, fully transparent and adequately-detailed billing information on pass through costs, including those associated with RO/FITs and the proposed exemption, and that this requirement should be added to the supplier obligation regulations. We believe DECC and/or Ofgem should actively monitor the situation ahead of and after the exemption has been implemented to ensure that this takes place. If there is evidence that suppliers are not passing on the exemption as expected, DECC should be prepared to act quickly to consider legislation or other regulatory action (e.g. by Ofgem on licensing) to ensure that the benefits are indeed passed on to EIIs as intended.

16 For suppliers, to what extent do you think the proposed exemption scheme will affect one-off (e.g. familiarisation) and on-going administrative costs, visibility of changing costs and your competitiveness? Please provide evidence and a quantification of the impact.

EIUG does not believe there will be any significant one-off or on-going administrative costs as a result of the exemption, and that to the extent these exist at all they are certain to be trivial in comparison with the value of industrial supply contracts. There is no excuse therefore for suppliers to attempt to charge EIIs for these 'costs'.

17 What other impacts on suppliers should be considered?

In the event that an exempt consumer is supplied via an operator of a closed distribution system who is not a formally licensed supplier, it needs to be clear how the exemption process will work.

Further, when the electricity measured by a meter is split between exempt and non-exempt activities, a simple and transparent process should be in place to ensure that the correct amount of exemption is applied without significant reconciliation effort.