Electricity intensive industries: relief from the indirect costs of renewables – consultation on eligibility

Response from the **Energy Intensive Users Group**

Question 1: Do you agree with the approach to eligibility?

EIUG believes UK sectors should not be disadvantaged with respect to EU competitors, especially Germany, and eligibility for compensation should therefore be more in line with that clearly permitted under EU state aid guidelines.

EIUG questions whether a sector-level test is necessary, especially if a business-level test is also to be applied, and fears that the eligibility criteria proposed by BIS would unnecessarily disadvantage electro-intensive companies in certain sectors. We would prefer that BIS simply accepted the Commission's eligibility rules, i.e. on the basis of the full Annex 3 and Annex 5 lists. However, if BIS is insistent on retaining a sector level test, it is vital that UK EIIs must not be left at a competitive disadvantage. Changes are therefore required to the proposed methodology, especially on the electricity price used to establish eligibility, and the analysis should be performed at an appropriate code level where there is a risk that distortions might occur. Subject to this, EIUG could support retaining the sector test as BIS have proposed but having a business level test using the same trade intensity and cost/GVA percentages so that any company can still make a claim if their sector level test is failed.

BIS's proposal to use a £67.42/MWh electricity price for the sector level test might be appropriate for some EIUG members (e.g. very large energy intensive users connected at EHV). The price is well below that paid by many others, however, especially smaller users, and would lead to a significant number of deserving sectors wrongly failing to qualify for compensation. We understand that a number of EIUG members have already provided BIS with evidence and others will also be doing so in their responses to this consultation. EIUG believes more representative prices should be used to assess eligibility, either in general of for sectors where evidence clearly shows this to be necessary, and recommends that more size-appropriate historic prices from DUKES data. This would be consistent with paragraph 6 of annex IV of the EEAG.

Question 2: Are there any products which have been ruled out by this test which are electricity or trade intensive?

EIUG understands there are a number of such examples, and that members will be drawing these to BIS' attention in their consultation responses.

Question 3: Do you agree with the business-level test approach?

EIUG appreciates the need to avoid opening the floodgates to all potentially eligible sectors listed in the EU guidelines (not all of them especially electro-intensive and/or trade-exposed) which we understand might double the potential compensation cost. Nevertheless, EIUG does not believe there should be a budget constraint for compensation to genuinely electro-intensive industries that are plainly at risk of carbon leakage. It would be a nonsense, for example, if sectors already deemed to be at risk of carbon leakage for ETS/CPF purposes were not to receive renewable compensation. Eligibility thresholds must be set appropriately – the proposed 20% threshold for electricity cost to GVA for Annex 3 sectors would leave a significant number of demonstratively electro-intensive businesses ineligible for compensation. A lower level (e.g. 7%, as for the sector-level test) would render most EIUG members eligible without massively impacting on the overall compensation budget. EIUG would therefore support a 7% threshold for a business-level test for those in Annex 3 sectors. Support for such a threshold reduction is conditional on this not being to the detriment of qualifying businesses in terms of the compensation level, etc.

The baseline will need to be updated as electricity prices rise towards the end of the decade and potentially beyond, as DECC forecasts suggest they are set to do. EIUG believes there should be a mechanism for businesses to be considered for compensation as soon as they can produce evidence that they meet the eligibility tests.

Question 4: Do you agree with this approach to aid intensity?

EIUG supports compensation to the maximum extent allowable under state aid guidelines (85% for most sectors). EIUG believes that compensation of more than 85% should be made available, where permitted, to ensure a level playing field with EU competitors such as Germany where higher compensation rates apply. Pending further legal clarification and research into how similar schemes are implemented in other Member States, EIUG therefore proposes that companies with >20% electro-intensity should be given the opportunity to opt for a 0.5% of GVA cap if that results in their costs being further limited.

EIUG believes it is unlikely that higher compensation intensity for the limited number of relevant companies would have a significant impact on the overall compensation budget, or exemption cost borne by other electricity consumers. Any compensation >85% should not therefore come at the cost of other sectors receiving less compensation than to which they would otherwise be entitled.

Question 5: How best can we ensure that eligible companies engage with, and take full advantage of the expertise and commercial finance from the Green Investment Bank?

EIIs already have strong incentives for energy efficiency. EIUG members would welcome financial assistance from the GIB for further projects currently at the edge of commercial viability, but report that finance is available elsewhere at equal or more competitive commercial rates and threshold levels for GIB interest or involvement are relatively high. Improving access to GIB finance is important, but largely irrelevant in terms of addressing the carbon leakage risk to EIIs and the urgent need for comprehensive compensation for the mounting indirect cost of renewable policies on UK industrial electricity prices.

Do you have any other comments that might aid the consultation process as a whole?

EIUG believes that RO/FIT compensation should be paid as soon as state aid clearance has been obtained, and not delayed until April 2016 as currently planned.

EIUG supports BIS's plan for early pre-notification with swift analysis of consultation responses and publication of a response in December, so that formal notification can be made (and hence state aid clearance obtained) as soon as possible.