

# **Renewables Obligation (Scotland)**

## **Widening the Exemption for Energy Intensive Industries from the Indirect Costs of the Renewables Obligation (Scotland): Consultation**

### **Scottish Government Response**

October 2019

## Introduction

1. The Renewables Obligation (RO) is one of the main support mechanisms for renewable electricity projects in the UK. The RO came into effect in 2002, placing an obligation on UK electricity suppliers to source an increasing proportion of the electricity they supply from renewable sources. A parallel mechanism, The Renewables Obligation (Scotland) (ROS) exists for Scotland.
2. In 2017, the UK Government and Scottish Government delivered legislative changes to create a scheme that exempts Energy Intensive Industries (EII) from a proportion of the indirect cost of the RO and ROS.
3. To be eligible for exemption, businesses must pass a sector test and a 20% electrical intensity threshold<sup>1</sup>.
4. In response to criticism that these rules create competitive distortions - by disadvantaging those who are not eligible but who operate in the same sectors as those who are – the UK Government committed to consult on widening eligibility for exempt EII from the indirect policy costs of the RO as well as two further renewable electricity schemes, Contracts for Difference (CfD) and (if introduced) the small-scale Feed-In-Tariff (FIT).
5. Given our devolved responsibility for the ROS, and an historical preference to maintain parity with the UK scheme, the Scottish Government published a consultation in parallel. The Scottish consultation did not cover exemption from the costs of the CfD and FIT schemes, which are reserved matters.
6. This document outlines the Scottish Government decision on this matter following consideration of the information provided by respondents.

## Consultation Summary

7. The Scottish Government published a consultation<sup>2</sup> in June 2018 that asked whether there was evidence of competitive distortions resulting from the current eligibility threshold for the exemption of EII from a portion of the indirect costs incurred by the ROS.
8. The consultation sought views on a range of options for lowering the electricity intensity threshold, and which of these options might best address competitive distortion, should evidence suggest they exist. These options included
  - Lowering the current eligibility threshold to either 17%, 15% or 10% electricity intensity

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<sup>1</sup> Electricity costs must be at 20% or higher of a business's Gross Value Added (GVA) which is defined as earnings before interest, taxes, depreciation, amortisation and staff costs including employers' pension and national insurance contributions

<sup>2</sup><https://consult.gov.scot/energy-and-climate-change-directorate/widening-the-exemption/> The UK consultation 'Energy intensive industries: Relief from the indirect costs of renewable energy schemes – widening eligibility' is available at: <https://www.gov.uk/government/consultations/widening-eligibility-for-renewable-electricity-cost-relief-schemes>

- Whether the aid intensity should be reduced for eligible EII with lower levels of electricity intensity, in order to minimise the impact on other consumers.

9. Finally, the consultation also sought information on any alternative options for managing the exemption of EII from the indirect costs of the ROS, and what the impacts might be of diverging from the UK scheme.

10. The consultation ran in parallel with a UK consultation on the same topic, from June 21 to September 14 2018. The options for lowering the electricity intensity threshold mirrored those outlined by the UK Government Department for Business, Energy and Industrial Strategy (BEIS).

11. In addition, BEIS also consulted on a proposal not to redistribute money recovered from over-exempted EIIs and on improving operation of the exemption schemes. The UK consultation also invited evidence from sectors seeking to be considered for inclusion in the eligible sector list. None of these points were raised by the Scottish consultation. For further information on the outcome of these points, interested parties should consult the UK Government response<sup>3</sup>.

## **Summary of Consultation Responses**

12. We received three responses to our consultation, for one industrial operator, one trade association and one energy supplier. The list of respondents can be found in Annex A.

The key points raised by respondents were that:

- The current electricity intensity threshold does create competitive distortions: there is an “eligibility movement” risk for some businesses who sit close to the electricity intensity threshold. GVA may increase whilst actual electricity consumption remains the same. Lowering the electricity intensity threshold could offset this risk
- Lowering the electricity intensity threshold would have an adverse impact on other electricity bill payers
- Divergence from the UK exemption scheme could create further market distortions, create consumer confusion and increase the burden on scheme administrators.

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<sup>3</sup> <https://www.gov.uk/government/consultations/widening-eligibility-for-renewable-electricity-cost-relief-schemes>

## Post Consultation Decisions

13. Whilst responses were limited, it should be noted that a preference to maintain parity with the UK exemption scheme was unanimous. This has given heightened salience to the outcomes of the UK consultation.

14. **Following careful consideration of responses and discussion with UK Ministers, Scottish Ministers have made the following decision:**

- **The eligibility threshold for the exemption schemes will be maintained at the current 20% electricity intensity**
- **Aid intensity will remain at the current 85% level**
- **The flour milling sector will be added to the list of eligible sectors. The UK Government will amend the relevant legislation to do this.**

15. These decisions are consistent with those taken by the UK Government, which are set out in detail in their government response<sup>4</sup>.

## Implementation

16. The legislative changes required to implement the above decisions will be made to The Electricity Supplier Obligations (Amendment & Excluded Electricity) regulations 2015 by the UK Government. The Scottish Government will itself not be required to implement any legislative changes.<sup>5</sup>

17. A statutory instrument amending The Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015 will be laid in Parliament to implement the decisions to add the flour milling sector to the list of eligible sectors and to improve the operation of the exemption schemes. The amendment to the Regulations is subject to approval by a resolution in each House of Parliament before the amended Regulations are made.

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<sup>4</sup><https://www.gov.uk/government/consultations/widening-eligibility-for-renewable-electricity-cost-relief-schemes>

<sup>5</sup> The exemption criteria are defined in the 2009 Renewables Obligation (Scotland) Order by reference to the Electricity Supplier Obligations (Amendment & Excluded Electricity) Regulations 2015. When the 2015 regulations are updated at the UK level, the effect will be that the definition in the ROS Order is also updated.

## Scottish Government Response to Consultation

### 1a Does the current eligibility threshold (20% electricity intensity) create any competitive distortions?

In response to this question, responses asserted that competitive distortions did exist, although limited evidence was provided to support this.

#### Government Response

Given the impact of lowering the current eligibility threshold on bills for other electricity consumers, including fuel poor households, Scottish Government considers that doing so would only be justified where there is clear and substantial evidence that the current 20% electricity intensity threshold is causing significant competitive distortions both in the UK and internationally.

Given the limited number of consultation responses, and limited evidence of such distortions outlined in our consultation analysis, widening the eligibility threshold for EII is not justified for now.

The Scottish Government does recognise higher electricity prices experienced in the UK and is committed to working in partnership with Scottish businesses who are large users of energy to find sustainable ways of reducing costs through improving energy efficiency. Our recently published Discussion Paper, [Decarbonising Scotland's Industrial Sectors and Sites](#) highlights the work that we are engaged in to collectively move forward and promote industrial decarbonisation and energy efficiency.

A range of opportunities for advice and support are available from the Scottish Government, Scottish Agencies, the UK Government and further afield for businesses looking to reduce their energy costs and improve efficiency. These programmes can be found [here](#).

### 1b If so, which options set out by BEIS would best address such distortions?

In expressing support for lowering the threshold in line with the options proposed by BEIS, 2 responses showed preference for option 2 (15% electricity intensity threshold) and option 3 (10% electricity threshold). A third response provided no direct preference for any of the 3 options.

### **Government Response**

The Scottish Government has decided not to lower the eligibility threshold below 20% electricity intensity.

### **1c Should the Scottish Government consider amending the ROS to deliver similar (or the same) changes?**

Of the 3 responses, support for the Scottish Government making similar, or the same, changes proposed in the BEIS consultation was unanimous.

### **Government Response**

The Scottish Government accepts the position of all respondents that implementing a divergent exemption scheme in Scotland would risk creating further market distortions and additional complexity, particularly for businesses that operate across the UK. That is why a 20% electricity intensity threshold aligned with the UK Government will be maintained.

### **2a Are there alternative options to operate the RO(S) exemption eligibility in Scotland?**

In response to question 2a, 2 responses suggested that no alternative options existed for operating the RO(S) exemption in Scotland. 1 respondent suggested otherwise.

### **Government Response**

The Scottish Government accepts that there may be a range of views on the best way to manage the costs associated with the obligations for renewable electricity generation. Given the limited number of responses to this consultation, the level of support for these options is unclear. Considered alongside a strong expression to maintain parity with the UK, we have elected to maintain the current mechanism of levies on energy bills and a 20% electricity intensity threshold exempting eligible businesses from a portion of these costs.

**2b If so, what forms could these alternatives take?**

One response was received to this question. It proposed that renewable energy generation could be funded on a general taxation basis as opposed to levies on electricity bills. Where this system is implemented, it should be done so GB-wide.

**Government Response**

As above, (2a),

In addition: The Scottish Government would be interested to continue conversations with interested parties on progressive ways of recovering costs associated with renewable electricity generation, that can benefit all consumers.

Where more beneficial mechanisms for compensation are considered viable, we would press the UK government to consider these too.

**2c What impact would divergent eligibility rules in Scotland create for Energy Intensive Industries, non-exempt businesses and consumers?**

**All responses were opposed to divergent eligibility rules in Scotland.**

**Government Response**

The Scottish Government accepts the position of all respondents that implementing a divergent exemption scheme in Scotland would risk creating further market distortions and additional complexity, particularly for businesses that operate across the UK. That is why we have decided to align our decision with the UK Government and maintain a 20% electricity intensity threshold.

18. The Scottish Government would like to thank all respondents for taking the time reply to this consultation.

# **Annex A**

**List of Respondents** (who gave permission to have responses published)

SSE Business Energy





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