Renewables Obligation (Scotland)

Consultation on Implementing an Exemption for Energy Intensive Industries from The Indirect Costs of The Renewables Obligation (Scotland)

Scottish Government Response

July 2017

Scottish Government
Riaghaltas na h-Alba
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Scottish Government Decision

Introduction

1. The UK Government announced in the Spending Review 2015[1] that “the government will provide an exemption for Energy Intensive Industries, including the steel industry, from the policy costs of the Renewables Obligation and Feed In Tariffs, to ensure that they have long term certainty and remain competitive”.

2. The Scottish Government supports these measures in reducing indirect costs from climate policies to help support the international competitiveness of Energy Intensive Industries (EIIs) as they seek to reduce their direct emissions under policies such as the EU Emissions Trading System or UK Climate Change Levy, as part of the transition to a low carbon economy.

3. Between 1 April 2016 and 27 May 2016, the UK Government consulted[2] on proposals which relate to the implementation of an exemption to the Renewables Obligation (RO) in England and Wales and to the Feed In Tariff (FIT) scheme in Great Britain.

4. In order to ensure that EIIs operating all or part within Scotland could benefit from the proposed GB-wide exemption, the Scottish Government published a consultation[3] on 19 May 2016 seeking views on proposals to implement the exemption in relation to the RO Scotland (ROS) which is overseen by the Scottish Government. The consultation ran for 6 weeks and closed on 30 June 2016.

5. This document sets out the Scottish Government’s response to the consultation.

Summary of consultation responses

6. We received 20 responses to our consultation from a range of EIIs, trade associations, energy suppliers, consumer groups and an individual.

7. In their responses, stakeholders focussed on three main issues:

    - The benefits to eligible EIIs of transitioning from the current compensation scheme to an exemption scheme, including greater certainty and quicker more accurate support,

    - The importance of the Scottish Government implementing the exemption scheme on the same basis as the UK Government, as part of GB arrangements,

[1] https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents
[2] https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits
[3] http://www.gov.scot/Publications/2016/05/8327/0

- The impact of transitioning from the current compensation scheme to an exemption scheme on non-exempt businesses and households.

8. A summary of the consultation responses is provided at **Annex A**. Sixteen respondents gave permission for their response to be published[4].

Post Consultation Decisions

9. Our consultation made clear that it was our intention to follow the same approach as the UK Government and introduce identical provisions and requirements as in England and Wales - unless compelling arguments or evidence were presented to the contrary.

10. We have considered the consultation responses (many of which were also submitted in similar terms or referred to the UK Government's consultation) to help us reach a decision on whether we should implement the same proposals as England and Wales for the RO.

11. Whilst there was some opposition to the proposals based on the impact on energy bills for households and non-exempt businesses, there was strong support for a consistent approach to be taken across GB on the basis that any divergence presents increased risks, complexity, costs and uncertainty.

12. Having carefully considered the issues raised by stakeholders, Scottish Ministers intend to proceed to implement the exemption for EIIs from the indirect costs of the Renewables Obligation Scotland through changes to relevant legislation.

13. Specifically, the Scottish Government has made the following decisions. These are consistent with those taken by the UK Government, which are set out in detail in their government response[5].

Renewables Obligation Scotland

- The exemption will be implemented by amending the Renewables Obligation (Scotland) Order 2009 (as amended) to make the following changes:

    (i) revising the methodology for setting the obligation level (ROCs per megawatt hour of electricity supplied) as set out in the step by step guide at Annex A of the Department for Business, Energy and Industrial Strategy's (BEIS) government response.

    (ii) adjusting the scope of the renewables obligation so that the revised obligation level applies to:
        - 100 per cent of electricity provided to non-eligible EII customers
        - at least 15 per cent of electricity supplied to eligible EIIs

[4] https://consult.scotland.gov.uk/energy-markets/renewables-obligation-exemptions/consultation/published_select_respondent
[5] https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits

(iii) requiring suppliers to provide Ofgem, as part of the RO end year compliance process, with additional information on EII excluded electricity supplied. “EII excluded electricity” means up to 85% of electricity supplied to eligible EIIs in England and Wales by licensed electricity suppliers

As under the current arrangements, we will continue to set and publish a single obligation level for Great Britain.

Timing

- As stated in the consultation, implementation of the exemption is subject to approval by the Scottish Parliament and securing State aid approval from the European Commission. State aid approval has now been received.
- Due to delays in the timetable for introducing the exemption we will now aim to introduce the exemption from 1 January 2018.
- Introducing the exemption from 1 January 2018 will require us to adjust the 2017/2018 obligation level published by 31 October 2017.
- If the implementing legislation has not come into force and we are not in a position to publish the revised obligation level by 31 October, the exemption will come into effect from the start of the fourth month after the necessary approvals have been obtained and a revised renewables obligation is published.
- This means if, for example, we confirm the adjusted obligation level in November it will come into effect from 1 March etc.
- After the 30 November 2017, we would no longer adjust the 2017/18 obligation to implement the exemption but would aim to bring the exemption in for the start of the 2018/19 obligation year. This means if we confirm the adjusted 2018/19 obligation level in December 2017 it will come into effect from 1 April 2018, if we confirm it in January 2018, it will come into effect from 1 May 2018 etc.
- We will continue to work closely with the UK Government with a view to co-ordinating as far as possible the remaining work to deliver the exemption.

Arrangements for setting the obligation level for 2017/2018

- In accordance with article 12(4) of the Renewables Obligation (Scotland) Order 2009 (as amended), the 2017/18 obligation level for GB has already been published by Scottish Ministers[6]. This was calculated in accordance with **current** methodology and does not include the exemption:
  - The total UK obligation (including 10% headroom) has been set at 119.1m ROCs and the obligation level for GB is **0.409 ROCs** per megawatt hour (and 0.167 ROCs per megawatt hour for Northern Ireland).

- If the obligation level is calculated in accordance with the **revised** exemption methodology the obligation level published on 1 October 2016 will change:
  - There would be no change to the total UK obligation which would remain at 119.1m ROCs (including headroom).

[6] http://www.gov.scot/Topics/Business-Industry/Energy/Obligation-12-13

- The obligation level in GB would increase from 0.409 ROCs per megawatt hour to **0.423 ROCs** per megawatt hour (and would remain at 0.167 ROCs per megawatt hour for Northern Ireland).
- The full calculation is set out in Annex B of BEIS's government response.

- If, as is the intention, the exemption is introduced part way through the 2017/18 obligation year the **current** obligation level for 2017/18 will apply for the period up until the exemption comes into force. The **revised** obligation level published in accordance with the timing outlined above would apply for the remainder of the obligation year (for the volume of electricity supplied minus any EII excluded electricity).
- In the event that we are not able to introduce the exemption during 2017/18 the **current** obligation level published on 1 October 2016 would apply for the whole 2017/18 obligation year.

EII eligibility

- The RO exemption will be available to the same EIIs that will be eligible for the Contracts for Difference (CfD) exemption.
- To be eligible a business must manufacture a product in the UK within an eligible sector (defined by 4 digit NACE code) and pass the 20% electricity intensity test (i.e. that their implied mean electricity costs amount to 20% of their mean Gross Value Added).

Administrative process

- BEIS will administer the RO exemption scheme based on the application processes being set up for the CfD exemption[7].
- BEIS are considering options for a statutory mechanism to recover and redistribute any over-exemption that EIIs have received in error and will respond on this issue at a later date. The arrangements will also apply to the ROS. In the meantime recovery will be possible under generally applicable law, where necessary.

Next Steps

14. All of the necessary changes will be introduced to the RO (Scotland) Order 2009 (as amended) with effect from 1 January 2018, subject to the approval of the Scottish Parliament and publication of a revised obligation level by 31 October 2017.

In the event that we are not able to introduce the exemption by 1 January 2018, we will aim to bring it into force at the start of the fourth month after the necessary approvals are obtained and we have published a revised obligation level.**Response to issues raised by stakeholders**

[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/605212/eiis-exemption-from-indirect-costs-cfd-draft-guidance.pdf

15. Stakeholders raised a number of issues about the proposals set out in our consultation. We have considered these issues carefully and respond as follows:

Approach and timing of implementation

We acknowledge comments from stakeholders in relation to the importance of the Scottish Government implementing the exemption scheme on the same basis as the UK Government and on the same timescale. Responses to our consultation showed strong support for a consistent approach to be taken across GB on the basis that a scheme applied differently in Scotland could create uncertainty, complexity, pose a direct threat to Scottish jobs and increase costs for consumers.

Our consultation made clear that it was our intention to follow the same approach as the UK Government and introduce identical provisions and requirements as in England and Wales – unless compelling arguments or evidence were presented to the contrary.

The decisions outlined in this consultation response are consistent with those made by the UK Government. We will continue to work closely with the UK Government with a view to co-ordinating the remaining work necessary to deliver the exemption.

Impact on households and non-exempt businesses

We recognise that implementing the exemption for eligible EIIs will result in additional costs to households and non-exempt businesses and acknowledge the concerns raised by stakeholders about the impact on bills.

However, responses to our consultation also highlighted a number of adverse outcomes for consumers if we did not align with the UK Government's proposals. In particular, it was noted that separate obligations would:

- require suppliers to make major changes to pricing and billing systems,
- make it more difficult and expensive to administer and forecast, creating significant uncertainty for customers.

The table below shows BEIS's latest estimates of the impact of the exemption from RO policy costs on average bills in Great Britain for households and non-exempt businesses[8]. The exemption may result in an overall increase of between 0.2% and 0.7% on average annual household electricity bills and by around 0.2% to 0.6% for non-exempt businesses over the 10 year tenure of the policy (all best estimates).

It should be noted that the estimates shown below are dependent on the level of RO costs, electricity sales in Great Britain and electricity demand. The exemption has no effect on the overall level of RO cost under the Levy Control Framework, but is reallocating those costs between different groups of electricity consumers.

[8] https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits

Table 1. Estimated annual increase on average bills by affected group in Great Britain, Option 1 (20% electricity intensity threshold, for just EIIs), 2016 prices, non-discounted, over 2017/18-2027/28

	Low estimate	Best estimate	High estimate
Average impact across all households	£0.9	£2.3 (+0.2%)	£3.9
Average impact across electricity only households[9]	£1.4	£3.9 (+0.7%)	£6.7
Small business energy user	£60	£160 (+0.2%)	£270
Medium-sized energy user	£2,500	£6.700 (+0.4%)	£11,500
Large-sized energy user	£23,400	£62,900 (+0.6%)	£107,400

The Scottish Government is taking action to support households in fuel poverty. We have allocated over £650 million since 2009 and we will make available half a billion pounds over the next four years to tackle fuel poverty and improve energy efficiency. We have allocated £114 million in the 2017/18 budget to improve the energy efficiency of Scotland's homes, building on the 1 million energy efficiency measures delivered to almost 1 million Scottish households since 2008 - helping make Scotland's homes cheaper to heat and reducing the costs of energy bills for householders.

Strong levels of support for non-exempt businesses exists through Scottish Government funded advice and support services such as the Resource Efficient Scotland Programme or Scottish Enterprise, to help those organisations invest in energy efficiency and decarbonisation actions that will reduce energy costs and improve productivity. This includes financial support via interest-free SME loans through the Resource Efficient Scotland programme.

EIIs: energy efficiency and decarbonisation

Under state aid rules, governments can only provide aid for up to 85 per cent of eligible costs and a significant incentive will therefore remain for EIIs to pursue energy efficiency measures and decarbonisation.

The new national infrastructure priority for energy efficiency of buildings, being delivered via Scotland's Energy Efficiency Programme[10] (SEEP) will develop new advice and support mechanisms along with financial products in partnership with the

[9] BEIS assumes that electricity only households consume an average of around 5.43 MWh per annum. This is based on the 'Household Electricity Survey, A study of domestic electrical product usage', at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208097/10043_R66141HouseholdElectricitySurveyFinalReportissue4.pdf

[10] http://www.gov.scot/Topics/Business-Industry/Energy/Action/lowcarbon/LCITP/SEEP

private sector that can support further investment in energy efficiency and decarbonisation by industrial organisations.

EIIs that do not currently qualify for the exemption scheme

The UK Government's consultation response confirms they notified the European Commission of a proposal to compensate direct competitors to eligible energy intensive businesses in 2015. However, they do not have approval for this approach. BEIS are therefore considering options that may be available within the scope of EU State aid guidelines.

Energy suppliers pass through of exemption to eligible businesses

We note that the UK Government does not plan to regulate suppliers to pass through cost savings to eligible businesses. However, we would expect that BEIS monitors this closely and should be prepared to revisit the matter, and consider taking action, at a future date if required.

Clarification on 2020 review of the scheme

The UK Government's consultation document stated that a review of the RO exemption scheme will take place no later than summer 2020. Any such review will also apply to the ROS.

ANNEX A - Summary of questions and analysis of responses

Q. We would like to hear and receive the views of consultees on the decisions in relation to implementing the exemption for EIIs as a consequence of the UK Government's proposals, as they relate to the RO Scotland.

Ten respondents indicated that they were in favour of transitioning to an exemption scheme, with most noting that it will provide energy intensive businesses with greater certainty of support in future as well as providing quicker and more accurate support.

Five respondents stated that they opposed the transition to an exemption scheme, with reasons including the increased costs to non-eligible EIIs and the impact on fuel poor households.

Five stakeholders did not comment on the consultation key issue but rather raised related issues.

It should be noted that four stakeholders who did not express support for the transition did so in acknowledgement that it was likely to be adopted by the UK Government. Should UK Government implement an exemption scheme, thirteen respondents argued that Scottish Government should do so uniformly. Many respondents argued that this would allow for the scheme to work as simply as possible throughout GB.

Only one party disagreed with this notion, stating that, in the event of any delay to the UK Government's implementation, Scottish Government should implement the exemption at 1 April 2017 or as soon as possible thereafter.

In the course of their responses, stakeholders discussed a number of related issues. These included assessments of the impact on non-eligible EIIs, the proposal not to regulate suppliers to pass on the benefit of the exemption and the impact of additional costs to households, particularly those in fuel poverty.

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