Energy Intensive Industries Exemption overview

In April 2016, the Government released a consultation on implementing an exemption for Energy Intensive Industries (EII) from the indirect costs of Renewable Obligation (RO) and Small Scale Feed-in Tariff (FiT).

A transition from 'compensation' to an 'exemption' based scheme for EII was announced in the 2015 Spending Review last Autumn.

What is changing?

Previously the Compensation Scheme was administered by the department for Business, Innovation and Skills (BIS). Under this version of the scheme, compensation for the costs of the RO and the FIT scheme was repaid to EII separately from electricity bills based on historical consumption levels.

The proposed Exemption Scheme will mean that EII will be exempt from paying RO and FiT directly through the reduction in their electricity bills.

How will the new scheme work?

Under the RO and FIT schemes, a supplier's obligation to pay the costs of supporting renewable generation is in proportion to that supplier's market share. Government propose to change each scheme so that a supplier's market share does not include a certain portion of its supply to each (if any) of its eligible EII customers. The supplier will pass this saving through to its EII customers.

Government propose to implement the exemption in relation to the FiT scheme in Great Britain and in relation to the RO in England and Wales. The Scottish Government are consulting separately on proposals to implement the exemption in relation to the RO in Scotland.

How will it benefit EII businesses?

The exemption scheme is designed to provide real-time support by effectively reducing the price paid for electricity, as well as increasing accuracy and certainty for EII businesses.

Based on our current forecast of RO and FIT scheme costs, the expected rate reductions for EII businesses are:

	2017/18	2018/19	2019/20	2020/21
Rate Reduction (p/kWh)	2.127	2.349	2.491	2.627

How are non-exempt business impacted?

The cost of the RO and FiT that is not being covered by EII will be spread across non-exempt businesses. Most will see an increase in bills, but this will depend on contract type and supplier.

In the consultation, DECC estimates increases in energy bills per annum of £5 for household bills, £360 for small business energy users, £15,000 for medium sized energy users and £140,000 for non-exempt large sized energy users (based on 2016 prices).

The below chart shows the forecast impact on non-exempt businesses based on the amount of volume that could be exempt from RO and FiT charges:

	Low case - 10TWh Exemption (p/kWh)	Central case -19TWh Exemption (p/kWh)	High case 29TWh Exemption (p/kWh)
2017/18	0.075	0.146	0.231
2018/19	0.083	0.163	0.257
2019/20	0.089	0.174	0.274
2020/21	0.095	0.186	0.294

When is it likely to start?

Subject to stakeholders' views, state aid approval and Parliamentary approval, the proposals are expected to come into effect on 1st April 2017. The impact of the RO exemption could be delayed back to 1st April 2018 if the legislative process is not complete for the headroom setting mechanism in 2018. The intended timetable will be confirmed in the Government Response to this consultation.

Please note - the consultation states that if the government does not get state aid for the 2017 date for the RO exemption, it will not go ahead. The document does not explicitly say the same for FiT.

Who is eligible for the exemption?

DECC propose to make the RO and FiT Exemption Scheme available to the same EIIs that are eligible for the RO and FIT Compensation Schemes and the CfD Exemption Scheme. EIIs will not be required to apply for certification under the RO and FIT schemes. Instead, an EII certified for the purpose of the CfD exemption will be eligible for the RO and FiT exemptions.

> Full list of eligible sectors and guidance on applying available here (page 3)

How do businesses apply for exemption?

Under the current CfD regulations, applications for an EII Certificate can be submitted at any point during the year. EII Certificates come into force on the day after they are issued or, where there is already a certificate in force in relation to that meter, on the 1st April in the financial year following the one in which the certificate is issued. Certificates will be valid from the date they come into force until the end of the financial year in which that date falls. This means that certificates issued on 1st October 2015 would be valid for six months.

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More information

View the consultation here or contact your Account Manager for more information.