Dear Rachel,

GOVERNMENT RESPONSE TO THE CONSULTATION ON ELIGIBILITY FOR THE ENERGY INTENSIVE INDUSTRIES RELIEF SCHEMES AND RELATED MATTERS

I am writing to inform you of the Government’s decisions following our consultation on eligibility for the energy intensive industries (EIIs) exemption schemes, which exempt EIIs from up to 85% of the costs in their electricity bills due to renewable energy support schemes, specifically Contracts for Difference (CFD), Renewables Obligation (RO) and small-scale Feed-In Tariffs (FIT). We have published the Government response setting out the full detail at https://www.gov.uk/government/consultations/widening-eligibility-for-renewable-electricity-cost-relief-schemes. We have also laid before Parliament the draft Statutory Instrument that, once made, will implement the decisions set out in the Government response.

Background

The CFD, RO and FIT schemes were introduced to encourage investment in low carbon and renewable electricity generation to enable the UK to meet its ambitious decarbonisation targets. The costs of funding these schemes are recovered through levies or obligations on electricity suppliers who pass the costs on to electricity consumers through higher bills. These pass-through costs could put UK EIIs trading in international markets at a competitive disadvantage compared with their EU and international competitors and increase the risk that businesses may choose to move their production abroad, including to countries that have less ambitious climate policies. The Government therefore introduced relief schemes for EIIs so that eligible businesses can receive an exemption of up to 85% of the costs of the CFD, RO and FIT schemes.

Over 180 energy intensive businesses, in manufacturing sectors such as steel, chemicals, paper, cement and glass, benefit from the exemption schemes. These sectors play an important role in our economy, providing highly skilled, well-paid jobs, often in areas of economic disadvantage. The exemptions for EIIs are paid for by all other electricity consumers, including households and ineligible businesses, who face higher bills as a result – around £4 a year higher for the average household consumer.
To be eligible for the EII exemptions, a business must be in an eligible sector and its electricity costs must be at least 20% of its Gross Value Added (GVA). This threshold was introduced in order to target the relief at the most electricity-intensive businesses whose competitiveness is most affected by high electricity prices, with the consequence that some businesses do not meet the threshold whilst their direct competitors do. Sectors affected by this, including glass and metals, have raised concerns about intra-sectoral competitive distortions as a result of the current threshold and asked Government to address this.

**Consultation on widening eligibility for the EII exemption schemes**

The Government made a commitment in the Industrial Strategy White Paper to consult on widening eligibility for the exemption schemes for energy-intensive industries to address potential intra-sectoral competitive distortions, taking into consideration the impact on consumer bills. The consultation covered the following main issues:

- Whether the current eligibility threshold for the EII exemptions should be maintained at 20% electricity intensity or lowered to support more EIIs if there is evidence that the threshold is causing or could cause significant competitive distortions;
- An invitation to currently excluded sectors to submit evidence to demonstrate that they satisfy the trade and electricity intensity criteria for inclusion in the schemes; and
- Actions to improve operation of the schemes.

**Outcome of the consultation and Government response**

Following the consultation, the Government has decided to proceed as follows on the above issues.

**Electricity intensity threshold**

Respondents to the consultation were split on whether to maintain the eligibility threshold at 20% electricity intensity or to lower it, with a small majority preferring to lower it. Taking account of the impact of lowering the current threshold on bills for other electricity consumers, including fuel poor households, and the limited evidence we received that the current 20% electricity intensity threshold is causing competitive distortions, **we have decided not to lower the threshold for the exemption but maintain it at the current level of 20% electricity intensity.** I recognise that this decision will disappoint a number of EIIs, but we consider that the existing threshold and consequent allocation of costs between the most electricity-intensive EIIs and other electricity users is appropriate for now.

We remain committed to minimising energy costs for business, including through the £315m Industrial Energy Transformation Fund to support industrial energy efficiency and decarbonisation projects that was announced in Budget 2018.

**Addition of new sectors to the eligible sector list**

The flour milling sector submitted new evidence that the sector meets the trade and electricity intensity criteria for inclusion in the exemption schemes. On the basis of the evidence provided, the Government is satisfied that the sector meets the criteria and therefore the draft SI, once made, will add the manufacture of grain mill products to the eligible sector list. This change will have a limited impact on the bills of other consumers (less than 0.1% increase).
Improving operation of the exemption schemes

There was strong support for the proposals set out in the consultation document to improve operation of the exemption schemes and therefore the draft SI, once made, will introduce these changes.

In addition to a copy of this letter, a copy of the Government’s Response to the consultation is being deposited in the House libraries.

Yours sincerely

NADHIM ZAHAWI MP
Minister for Business and Industry