



Department for
Business, Energy
& Industrial Strategy

THE GOVERNMENT RESPONSE TO THE CONSULTATION ON IMPLEMENTING AN EXEMPTION FOR ENERGY INTENSIVE INDUSTRIES FROM THE INDIRECT COSTS OF THE RENEWABLES OBLIGATION AND FEED-IN TARIFF SCHEMES

July 2017

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The consultation and Impact Assessment can be found on the BEIS section of GOV.UK: <https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits>

The government response to the Consultation on implementing an exemption for Energy Intensive Industries from the indirect costs of the Renewables Obligation and Feed-in Tariff Schemes

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Any enquiries regarding this publication should be sent to us at EII.Exemption@BEIS.gov.uk

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General information

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Consultation reference: Exemption for Energy Intensive Industries from costs of the RO

Territorial extent:

England, Scotland and Wales. Scotland has issued a separate Government response on the RO exemption.

Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

We will summarise all responses and place this summary on the [GOV.UK website](#). This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the [Government's Consultation Principles](#). If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

Email: consultation.coordinator@beis.gov.uk

Overview

Government has listened to the concerns of Energy Intensive Industries (EII) regarding electricity costs. The Autumn Statement in 2015 announced we would switch from compensating to exempting EII in relation to indirect costs arising from the Renewables Obligation (RO) and Feed-in Tariff (FIT) schemes, to ensure that EII have long-term certainty and remain competitive. In April 2016 we issued a consultation asking for input on how best to deliver an exemption from these indirect costs.

1. This document sets out the Government Response to the following consultation:
Consultation on implementing an exemption for Energy Intensive Industries from the indirect costs of the Renewables Obligation and Feed-in Tariff Scheme¹
2. The consultation document was published on 1 April 2016, and set out the proposals for how we plan to deliver the exemption. It looked in detail at the changes that will need to be made to the operation and administration of the RO and FIT schemes.
3. We received 69 responses to the consultation. Stakeholders included EII, energy suppliers, consumer groups, non-eligible businesses and individuals. We also held two stakeholder events to discuss the proposed changes and one-to-one meetings with interested groups.
4. This Government response relates to implementing an exemption for EII from the indirect costs of the **RO scheme only**. We will respond on implementing an exemption for EII from the indirect costs of the FIT scheme in due course.
5. We proposed to make the necessary changes to the RO and FIT schemes through amending secondary legislation, with implementation of the exemption being subject to Parliamentary approval and securing State aid approval from the European Commission. Subject to these approvals we proposed replacing the compensation scheme with an exemption scheme from 1 April 2017.

¹ Consultation on implementing and exemption for Energy Intensive Industries from indirect costs of the Renewables Obligation and Feed in Tariff Schemes, available at: <https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits>

6. The following sections summarise the responses received to the consultation questions relating to the RO scheme (consultation responses to implementing the exemption for both the RO and FIT schemes have been included), issues raised by stakeholders and the Government's final decisions on implementing an exemption for EIs from the indirect costs of the RO scheme. All responses received as part of the consultation were considered in developing the final policy positions. A list of respondents is included in Annex C.

Decisions taken following consultation

7. Following the consultation Government has made the following decisions:
 - We intend to implement the exemption in England and Wales² for the RO through changes to the supplier liability mechanism under the RO scheme;
 - As stated in the consultation, implementation of the exemption is subject to Parliamentary approval and securing State aid approval from the European Commission. We have now received State aid approval³ but, as discussions with the European Commission have taken longer than expected, and due to the formation of a new Parliament, we now intend to bring in the RO exemption from 1 January 2018 subject to being in a position to publish a revised 2017/18 obligation level by 31 October 2017. If the implementing legislation has not come into force and we have not published the revised 2017/18 obligation level by 31 October, our intention is that 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;
 - The Scottish Government has devolved responsibility for setting the RO in Scotland and has published its response to its consultation alongside this Government Response document. This confirms the intent to deliver the exemption in Scotland;
 - The exemption will not be introduced in Northern Ireland from the outset. However, it may be extended to Northern Ireland from a future date. As a devolved policy matter, this would be for a restored Northern Ireland Executive to consult upon and take forward if it so decides;
 - In light of stakeholder feedback, we will revise the methodology for calculation of the RO supplier obligation to adopt an equally robust but more straightforward option for implementing the exemption;
 - The RO exemption is intended to be available to the same EIs that will be eligible for the CFD exemption scheme;

² The RO exemption will also be implemented on a Great Britain basis. The Scottish Government has devolved responsibility for the operation of the RO in Scotland and will implement the exemption in Scotland through changes to the Renewables Obligation (Scotland) Order 2009. The Scottish Government consulted separately on implementing the RO exemption and published its Government Response on 19/07/2017. See: <http://www.gov.scot/Publications/2017/07/8547>

³ State aid approval was granted on 12 June 2017 – Commission case number SA54155 (the public version of this Commission decision is not yet available).

- We will not regulate to require suppliers to pass through savings to EIs;
- The application process for the RO exemption will be based on processes set up for the CFD exemption;
- We will respond on implementing an exemption for EIs from the indirect costs of the FIT scheme in due course.

Next steps

8. We will lay draft legislation before Parliament. We have now received State aid approval, and so, subject to Parliamentary approval, we intend to publish a revised 2017/18 obligation level by 31 October 2017. However, if the revised obligation level is not published by 31 October our intention is that 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.
9. We are also considering options for a statutory mechanism to recover and redistribute any over-exemption that EIs have received in error. Questions on these options were included in a consultation on the CFD exemption published in July 2016⁴. Government will respond on these questions at a later date. In the meantime recovery will be possible under generally applicable law, where necessary.

⁴ Consultation on Energy Intensive Industries (EIs) Exemption from the indirect costs of Contracts for Difference (CfDs), at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/540117/beis-16-1-eis-exemption-indirect-costs-cfd-consultation.pdf

Impacts of the Exemption

We set out in Chapter 1 of the consultation document the background and purpose of the exemption for EILs from the indirect costs of the RO and FIT schemes.

In addition to providing the background we made clear that the consultation set out proposals for how we plan to implement the exemption. We sought stakeholders' views on the benefits of using the RO and FIT schemes to deliver the exemption and sought quantification of the impacts on non-exempt business and households.

Question 1

| Consultation Question | 54 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

Do you agree that the main benefits to EILs of implementing the exemption through changes to the RO and FIT legislation are greater certainty and more accurate and faster support compared with compensation? Please provide evidence and quantification of the impact.

| | | | |
|--|------------|----|--|
| | Agree | 36 | |
| | Disagree | 12 | |
| | Don't Know | 6 | |

See Consultation on an exemption for EILs from the costs of the RO and the FIT schemes Chapter 1

Consultation position

- We proposed that moving from compensation to implementing an exemption through changes to the RO and FIT legislation could improve investment certainty and result in lower costs of production, improved competitiveness and potentially have a positive impact on employment and output. We also stated that this move will reduce Government spending and support the Government's long-term economic plan.

Summary of responses

11. There was an overall agreement from respondents to these benefits. Stakeholders cited the provision of more accurate and faster relief providing protection for ELLs exposed to the risks of carbon and investment leakage.
12. However, a number of respondents considered it unfair that the costs of exempting ELLs from the RO and FIT schemes would be levied across all electricity customers, irrespective of their income. Responses to this question also raised wider concerns about:
 - Eligibility - companies qualifying for the exemption could gain a competitive advantage over direct competitors that do not qualify; and
 - The administrative burden on suppliers such changes could create, for example a necessity for suppliers to change billing and IT processes.

Government response

13. We recognise that implementing the exemption for eligible ELLs will result in additional costs for all other electricity customers - Government estimates that this exemption may result in an overall annual 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 2017/18⁵ to 2027/28. For more information on how Government is mitigating these effects for domestic and business customers see questions 2 and 3. These costs need to be balanced against the benefits to ELLs of increased certainty, compared with a compensation scheme, and real time support provided to ELLs by being exempt from the costs of the RO. An exemption is not contingent upon departmental budgets which can fluctuate. This increased certainty, in turn, can help maintain competitiveness of ELLs in two ways. Firstly, as ELLs will be supported in real time this frees up working capital which can be deployed elsewhere. Secondly, the ELL may be able to raise or service debt at a lesser cost while maintaining their target debt service coverage ratios. This may have wider beneficial impacts on output, investment and employment decisions. Moreover, this may also reduce the risks of investment and carbon leakage.
14. Responses to the points raised by respondents about eligibility and competitive distortion and impacts on suppliers are addressed in questions 4, 16 and 17 respectively.

⁵ Please note that for 2017/18 we have only considered the months of January to March 2018.

Question 2

| Consultation Question | 51 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

For non-exempt businesses, to what extent do you think the estimated increase in electricity bills will affect competitiveness and decisions regarding output, employment and investment? Please provide evidence and quantification of the impact?

See Consultation on an exemption for EILs from the costs of the RO and the FIT schemes Chapter 1

Consultation position

15. When we consulted on how to implement the exemption, we recognised that there would be an impact on non-exempt businesses. Once implemented, the exemption is expected to reduce the electricity bills of eligible EILs with a consequent increase for those consumers not eligible for the exemption. Government is keen to be able to quantify the impact on non-exempt businesses.

Summary of responses

16. Stakeholders commented that the additional burden on non-exempt industry to cover the cost of the exemption could create competitive distortions. This is because non-exempt businesses and consumers will have to deal with the double impact of continuing to pay for the renewables policy and having to subsidise others.
17. Additional cost added to those non-exempt businesses in direct competition with companies that are eligible could exacerbate the distortion already created by the business level eligibility criteria.
18. Another point raised by industry was that the proposals may result in a loss of market share for non-eligible businesses and that a loss in competitiveness will risk losing export sales.
19. A small number of respondents thought the exemption will have a negative impact on their investment and employment policy, as the predicted increases in operating costs for businesses who do not qualify as an EIL would have to be passed on through the supply chain rather than be absorbed.
20. One international company stated electricity costs in the UK are already some of the highest in the world and therefore this additional burden could affect future investment within the UK. As energy will become cheaper for EILs, uptake of energy saving technology may slow down.

Government response

21. We understand there will be additional costs to non-exempt businesses which are estimated to increase average annual electricity bills by around 0.2% to 0.6% over 2017/18 to 2027/28. The RO costs without exemption are estimated to be over the

same period equivalent to around £17.40/MWh (2016 prices) on average over the ten year tenure and could rise, on average, to around £18.20/MWh when including the exemption for eligible EIs (identified as 'Option 1' in the Impact Assessment⁶).

22. As set out in the accompanying Impact Assessment⁶, the impact on average bills over 10 years is summarised in table 1 below. The Government is currently considering what more we can do in the business energy area – particularly in the context of our work on Industrial Strategy and the Clean Growth Plan.
23. The Government continues to bear down on business energy costs. The Industrial Strategy Green Paper proposes that new techniques for saving energy, new and more efficient means of energy generation and storage are developed.
24. Government is considering options to address the direct competitor issue (please see answer to question 4 below).
25. While we recognise that businesses that do not benefit from the exemption will bear additional costs, we consider the benefits of the exemption to justify proceeding. We have focused the exemption on those businesses for whom electricity is a significant part of their gross value added (GVA)⁷ and who operate in sectors which we consider at risk of losing out to international competition.

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

| Business Size | Low estimate | Best estimate | High estimate |
|----------------------------|--------------|-----------------|---------------|
| 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 |

⁶ <https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits>

⁷ GVA is defined as earnings before interest, taxes, depreciation and amortisation (EBIDA) and staff costs including employers' pension and national insurance contributions.

Question 3

| Consultation Question | 17 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

For householders, what will be the impact of the estimated increase in electricity bills?

See Consultation on an exemption for EIs from the costs of the RO and the FIT schemes
Chapter 1

Consultation position

26. As with question 2, when we consulted on how to implement the exemption we recognised that there would be an impact on householders. Government is keen to be able to quantify this impact.

Summary of responses

27. Of the 17 responses, 8 agreed that there would be an increase in electricity bills; a further 7 thought that the impact would be higher compared with the estimates set out in the impact assessment. Two respondents thought the impact would be lower.
28. Six respondents raised the concern that especially vulnerable households will be adversely impacted and some believed that introducing a policy which knowingly contributes to an increase in fuel poverty contradicts the principles of the Government's Fuel Poverty Strategy. One supplier said the uncertainty around the timing of the policy would have an impact on prices.
29. Two respondents provided estimates on the average increase for household electricity bills. One respondent estimated that the impact would be equivalent to an annual increase of around £12 per annum. Another thought that it would be around £7 per annum.
30. A small number of respondents suggested the impact assessment should be revised to include a separate assessment of the impact on consumers who depend on electricity to heat their home as well as the impact on the notionally 'normal' dual fuel customer. In addition, they suggested an assessment of the impact on fuel poverty and the fuel poverty gap and suggested that Government should consider what additional means of support might be required to offset the impact on the most vulnerable households and how this is mitigated as part of the fuel poverty strategy implementation.

Government response

31. We acknowledge that respondents are concerned about the impact on bills for households. As set out in the accompanying impact assessment⁸, the impact of the policy on average bills over 10 years is summarised in table 2. It should be noted that the estimates shown below are dependent on the level of RO costs, electricity sales in Great Britain and actual electricity demand from EIs (see table 1 in Impact Assessment). The exemption has no effect on the overall level of RO cost under the Levy Control Framework, it is simply reallocating those costs between different groups of electricity consumers.

Table 2. Estimated annual increase on average bills by affected group in Great Britain, Option 1 (20% electricity intensity threshold), 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 households⁹ | £1.4 | £3.9 (+0.7%) | £6.7 |

32. We have expanded the information in the impact assessment⁸ to include the additional details requested by stakeholders. The exemption will result in an overall increase of between 0.2% to 0.7% on average annual household electricity bill over the 10 year tenure of the policy (all best estimates). The impact on the fuel poverty gap, a measure of the depth of fuel poverty in England, could however be more significant. The impact of the exemption for eligible EIs on the aggregate fuel poverty gap¹⁰ could vary from being relatively small, (low scenario which consists of low RO policy costs and low exempt supply to EIs), to an increase of around £8 million per year by 2027/28 (high exempt supply to EIs and high scenario which consists of high RO policy cost, see tables 1 and 2 in the Impact Assessment). This is compared to continuing with compensation which is paid by tax payers. All estimates are in 2013 prices.

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

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 The fuel poverty gap for a fuel poor household is the difference between the household's energy cost and the national median. In this case the estimate of £8m refers to the increase in the aggregate gap.

33. However, these costs need to be viewed against the benefits of the exemption to EIs and wider action to tackle fuel poverty. Government is taking action to support households in fuel poverty, and in particular those using electricity to heat their homes.
34. The Warm Home Discount provides over 2 million homes each winter with a £140 rebate on their electricity bill¹¹; while the Energy Company Obligation: Help to Heat policy, which commenced in April 2017 directs 70% of the £640m of annual support for energy efficiency measures to low income households. The Help to Heat impact assessment showed that around 13% of energy efficiency measures under the 'Affordable Warmth' element of the scheme are expected to go to homes using electricity for heating. Electrically heated homes make up around 12% of the fuel poor, demonstrating the focus of Help to Heat on upgrading the homes of those most in need.

¹¹ https://www.ofgem.gov.uk/system/files/docs/2016/12/whd_annual_report_sy5_final_for_publication2.pdf

Eligibility

Chapter 2 of the consultation document set out the proposed eligibility criteria for the RO and FIT exemption.

The Government consulted on eligibility criteria for the scheme compensating EIs for the indirect costs of the RO and FIT schemes and the exemption from CFD (Contracts for Difference) costs in July 2014¹². The Government response to the consultation on eligibility criteria was published in January 2015¹³ with an updated Government response published in January 2016. Guidance for applicants¹⁴ for RO and FIT compensation, which sets out eligibility criteria and the application process, was published in January 2016.

Question 4

| Consultation Question | 56 Responses | |
|---|--------------|----|
| We propose to make the RO and FIT exemption available to the same EIs that are eligible for the RO and FIT compensation scheme and the CFD exemption. Do you agree? If not, what alternatives should be considered? | Agree | 24 |
| | Disagree | 30 |
| | Don't Know | 2 |

See Consultation on an exemption for EIs from the costs of the RO and the FIT schemes Chapter 2

Consultation position

35. We proposed to make the RO and FIT scheme exemption available to the same EIs that are eligible for the RO and FIT compensation scheme and the CFD exemption.

¹² [https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359649/BIS_14_995-EIs - Relief from the indirect costs of Renewables - consultation on eligibility revised doc.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359649/BIS_14_995-EIs_-_Relief_from_the_indirect_costs_of_Renewables_-_consultation_on_eligibility_revised_doc.pdf)

¹³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/395809/bis-15-31-electricity-intensive-industries-relief-from-the-indirect-costs-of-renewables-government-response-to-the-public-consultation.pdf

¹⁴ <https://www.gov.uk/government/publications/renewables-obligation-and-small-scale-feed-in-tariffs-apply-for-compensation>

Summary of responses

36. 24 respondents agreed with our proposal. They said applying the same rules as the existing RO and FIT compensation schemes and CFD exemption streamlines the process and significantly reduces the administrative burden on EIs, Government and suppliers. Furthermore, any inconsistency would further damage business confidence in the reliability of UK Government policy and threaten UK jobs and investment.
37. However, 30 respondents disagreed with this proposal for the following reasons:
 - The 20% electricity intensity threshold is arbitrary and creates competitive distortion;
 - Government should not prop up an unsustainable industry by making other more sustainable businesses uncompetitive;
 - An exemption will send a negative message to renewable investors;
 - Government is risking carbon leakage from non-eligible businesses that are within eligible NACE (Nomenclature of Economic Activities) codes (this is how the EU groups organisations according to their business activities);
 - Ineligible businesses with high energy costs will face a “double whammy”;
 - Companies that do qualify are gaining a financial advantage over their direct competitors that do not qualify.
38. Some respondents proposed alternative methods for implementing an exemption such as applying the exemption to all qualifying sectors, regardless of whether they meet the energy intensity threshold, development of different energy intensity levels for different sub-sectors, or a sliding scale of relief.
39. Further proposals included:
 - Having non-manufacturing activities removed from the company’s financial information. This would result in more companies qualifying;
 - Incorporating the RO and FIT charges into the Climate Change Levy and using existing Climate Change Agreements to give EIs a further rebate.

Government response

40. We have decided to make the RO exemption available to the same EIs that will be eligible for the CFD exemption. This is because we consider this will ensure consistency, compliance with the EEAG and a reduced administrative burden on EIs.
41. We have introduced a business-level test to determine eligibility to target the relief towards those companies most at risk of seeing their competitiveness impacted due to the indirect cost of the RO, FIT and CFD. The test is set out in the draft

Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017¹⁵.

42. We also recognise that this may lead to intra-sectoral competitive distortions where one company qualifies for aid, but its direct competitor does not. We notified the European Commission of our proposal to compensate direct competitors to eligible energy intensive businesses in 2015 and we have had a number of discussions with Commission Officials regarding the notification. However, we currently do not have Commission approval for this approach. We are therefore considering options that may be available to us within the scope of EU State aid guidelines.
43. The EEAG, which set out the conditions under which the European Commission may consider aid for energy and the environment to be compatible with the internal market, cover eligibility and how a company's electricity intensity is calculated and do not include scope for considering whether the company is sustainable or has high absolute energy costs. The way we calculate electricity intensity in accordance with the EEAG does not allow us to remove non-manufacturing activities from a company's financial accounts. Furthermore, the business-level test of 20% electricity intensity is based on the Commission's figure in the EEAG to determine business eligibility in heterogeneous sectors.
44. We note the suggestion that RO cost should be incorporated into the Climate Change Levy and relief provided to ELLs through existing Climate Change Agreements. The RO is an obligation on licensed electricity suppliers and therefore distinct from the Climate Change Levy, which is a consumption tax on industrial commercial and public consumers. Though RO costs appear as charges on electricity bills, they are different from the Climate Change Levy in who directly pays the subsidy or tax, and how it is collected. On this basis they cannot be combined.
45. We have therefore decided to continue with our proposal to make the RO exemption available to the same ELLs that will be eligible for the CFD exemption.

¹⁵ Draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017, at, <http://www.legislation.gov.uk/ukdsi/2017/9780111157015/contents>

The Renewables Obligation

We set out in Chapter 3 of the consultation document detailed proposals to implement the exemption in England and Wales by making adjustments to (i) the methodology for setting the obligation level and (ii) the scope of the obligation, to account for a proportion of electricity supplied to eligible EIs.

46. We proposed minor changes to the end of year reporting requirements for suppliers to enable Ofgem to calculate individual supplier obligations. We also set out our thinking on arrangements for publishing the final obligation for the 2017/18 obligation period, the intended first year of the proposed exemption.
47. In describing the proposal for the RO, we use the following definitions:
 - **“total obligation”** means the total estimated demand for Renewables Obligation Certificates (ROCs) in the UK;
 - **“obligation level”** means the number of UK ROCs (per megawatt hour (MWh) of electricity supplied) that each supplier must present to Ofgem in respect of electricity supplied to customers during an obligation period, in order to discharge its renewables obligation;
 - **“EI excluded electricity”** means up to 85% of electricity supplied to eligible EIs in England and Wales by licensed electricity suppliers.

Question 5

| Consultation Question | 23 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

Is changing the methodology for calculating the obligation level and scope of the obligation level the appropriate method to apply the exemption? If not, what alternatives could be used and why?

| | | | |
|--|------------|----|--|
| | Agree | 17 | |
| | Disagree | 3 | |
| | Don't Know | 3 | |

See Consultation on an exemption for EIs from the costs of the RO and the FIT schemes Chapter 3

Consultation position

48. We proposed to change the methodology for setting the obligation level (see question 6) and to adjust the scope of the renewables obligation in the Renewables Obligation Order 2015 (RO Order 2015) so that the revised obligation level (ROCs/MWh rate) would be applied to:
- 100% of electricity provided to non-EII customers;
 - 15% of the electricity supplied to eligible EIIs.

Summary of responses

49. The majority of respondents agreed with this proposal. Key points included:
- The importance of having an approach that is transparent and maintains the demand for ROCs;
 - The proposal appeared to be the simplest and fairest way to re-allocate the costs of the RO scheme amongst non-exempt customers (although conversely some considered that it made the calculations more complex and more difficult for stakeholders to understand).
50. Respondents flagged the importance of the Scottish consultation mirroring the England and Wales proposals and proceeding to the same timescale. They flagged that current pricing and billing systems are set up for one GB RO value and changing this to two, dependent on area, would require major system changes as well as creating significant uncertainty for customers.
51. Those who disagreed considered that relief to EIIs should continue to be provided through the current compensation scheme. One respondent was concerned about the potential impact on the obligation level if the actual EII exempt volume differs from the forecast used when setting the obligation level. They considered that this additional uncertainty would create further cost risk for suppliers which would feed into customer bills.

Government response

52. Government intends to implement the exemption for the RO in England and Wales by amending the RO Order 2015 to make changes to the methodology for setting the obligation level and to adjust the scope of the obligation. Further details are set out in the responses to questions 6 and 7 below.
53. The exemption is intended to be implemented on a Great Britain basis. The Scottish Government¹⁶ has devolved responsibility for setting the obligation in Scotland and issued a consultation on 19 May 2016 on implementing the RO exemption in Scotland¹⁷. The proposals for implementing the exemption mirrored

¹⁶ The rules on calculating the obligation level for individual suppliers in respect of electricity supplied to customer in Scotland are set out in the Renewables Obligation (Scotland) Order 2009 ("RO Scotland") as amended, at: <http://www.legislation.gov.uk/sdsi/2009/9780111003268/contents>

¹⁷ Consultation on implementing an exemption for Energy Intensive Industries from the indirect costs of the Renewables Obligation Scotland, at: <http://www.gov.scot/Publications/2016/05/8327>

those set out in the consultation for England and Wales. The Scottish Government has published its response to its consultation alongside this Government Response document¹⁸. This confirms that Scotland intends to make equivalent changes to the methodology for setting the obligation level and scope of the obligation in Scotland to those described in this document for England and Wales. This means that, as under the current arrangements, we will continue to set and publish a single obligation level for Great Britain. We will continue to work closely with the Scottish Government with a view to co-ordinating as far as possible the remaining work necessary to deliver the exemption.

54. The exemption will not be introduced in Northern Ireland from the outset. However, it may be extended to Northern Ireland from a future date, subject to Ministerial direction to consult on making equivalent changes to the Northern Ireland Renewables Obligation. In the meantime, the publication of a separate Northern Ireland obligation will continue, with the calculation and scope of the obligation level in Northern Ireland remaining the same as under the current methodology¹⁹.
55. We note that one respondent was concerned about the impact on the obligation level if the actual EII exempt volume differs from the forecast used when setting the obligation level. Our response to question 8 explains how we will estimate EII exempt supply volumes using in the first instance actual historic data from eligible EII companies, and then data obtained through the RO end year compliance process to inform our estimates of EII excluded supply.

Question 6

| Consultation Question | 22 Responses | |
|--|--------------|----|
| Do you agree with our proposals for changing the methodology for calculating (i) the total RO and (ii) the obligation level for individual suppliers for England and Wales? If not please explain why. | Agree | 16 |
| | Disagree | 1 |
| | Don't Know | 5 |

See Consultation on an exemption for EIIs from the costs of the RO and the FIT schemes Chapter 3

¹⁸ <http://sh45inta/Publications/2017/07/8547>

¹⁹ The rules on calculating the obligation level for individual suppliers in respect of electricity supplied to customers in Northern Ireland are set out in the Renewables Obligation Order (Northern Ireland) 2009 as amended, at: <http://www.legislation.gov.uk/nidsr/2009/9780337976759/body>

Consultation position

56. To implement the exemption, we proposed to make the following changes to the methodology used to calculate the obligation level:
- Maintain the current rules for using either Calculation A or Calculation B to set the **total obligation** in respect of electricity supplied in England and Wales;
 - Amend the estimate of total electricity supplied used to calculate the **obligation level** in England and Wales by removing the amount of electricity we estimate will be supplied to exempt EILs (so called “EIL excluded electricity”);
 - Adjust the **obligation level** for England and Wales (and Scotland – on the assumption that the Scottish Government follow a similar approach) to take account of the fact that Northern Ireland is not intending to implement the exemption at this time.

Summary of responses

57. The majority of respondents agreed with our proposal, saying the approach appeared reasonable and relatively straightforward.
58. One response caveated that Government should provide clarity on how the methodology would change if the Scottish Government decided not to implement the exemption at all or according to the same form and/or timescales as proposed for England and Wales.
59. One respondent disagreed with the proposal, stating that whilst they agree with the intent of the calculation, the process proposed appeared to be overly complex and difficult to follow. They submitted an alternative proposal for implementing the change in a simpler and more transparent fashion.

Government response

60. We have considered in detail the alternative methodology for calculating the obligation level proposed by the consultation respondent and concluded that this is an equally robust but more straightforward option for implementing the exemption. It delivers our policy intent of setting a proportionately higher obligation for non-EIL excluded electricity to offset the exemption, whilst ensuring that the availability of Renewable Obligation Certificates (ROCs) continues to match demand, and therefore would not affect the value of the ROC, nor operation of the ROC market.
61. The revised methodology involves:
- Calculating the GB obligation level using the current methodology;
 - Multiplying this by the ratio of forecast GB eligible supply including EILs to forecast GB eligible supply excluding EILs.
62. We therefore plan to implement this revised methodology. A step-by-step guide to how this will work, and a comparison with the current methodology and the

methodology we had originally proposed in the consultation can be found in Annexes A and B.

63. As noted in question 5, the Scottish Government has published its response to its consultation alongside this Government Response document²⁰. This confirms that Scotland intends to make equivalent changes to the methodology for setting the obligation level and scope of the obligation in Scotland to those described in this document for England and Wales.

Question 7

| Consultation Question | 20 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

Do you agree with our proposals for changing the scope of the renewables obligation? If not please explain why.

| | | | |
|--|------------|----|--|
| | Agree | 15 | |
| | Disagree | 3 | |
| | Don't Know | 2 | |

See Consultation on an exemption for ELLs from the costs of the RO and the FIT schemes Chapter 3

Consultation position

64. We proposed to adjust the scope of the renewables obligation in the RO Order 2015 so that the obligation level (ROCs/MWh rate) would be applied to:
- 100% of electricity provided to non-ELLs;
 - 15% of the electricity supplied to ELLs.

Summary of responses

65. The majority of respondents agreed. A small number of respondents pointed out a potential inconsistency in the text in the consultation document between the proposal to exempt **up to 85%** of electricity supplied to eligible ELLs in England and Wales and the proposal for the scope of the RO to be applied to **exactly 15%** of electricity provided to ELL customers. This would mean that there is potential for an underestimate of the scope of the renewables obligation if the 15% rate is applied to the electricity supplied to an ELL but the exemption itself is not for the full 85%.

²⁰ <http://sh45inta/Publications/2017/07/8547>

Government response

66. We have decided to proceed with implementing our proposal for changing the scope of the renewables obligation. However, as pointed out in the responses, the exemption for eligible EILs is in respect of *up to 85%* of electricity supplied and therefore their RO liability will be *at least 15%*, not a fixed 15% as suggested in the consultation document²¹.
67. This means that the scope of the renewables obligation specified in the RO Order 2015 will be revised, once the exemption comes into effect, so that the obligation level (ROCs/MWh rate) will be applied to:
- 100% of electricity provided to non-eligible EIL customers;
 - At least 15% of the electricity supplied to eligible EILs.

Question 8

Consultation Question

33 Responses

For the setting of the RO we require a robust estimate of exempt electricity supplied to EILs (see Annex A). Do you agree that we should be taking this directly from energy suppliers to EILs? If not, please explain why and provide evidence.

| | | | |
|--|------------|----|--|
| | Agree | 25 | |
| | Disagree | 4 | |
| | Don't Know | 4 | |

See Consultation on an exemption for EILs from the costs of the RO and the FIT schemes Chapter 3

Consultation position

68. We proposed to base our estimate of EIL excluded electricity on actual supply data from energy suppliers to eligible EILs who have applied and have been deemed eligible for compensation (and subsequently the exemption).

²¹ Individual eligible EILs will be entitled to up to an 85% exemption on policy costs of RO so they will remain liable for at least 15% of the costs. Details of the precise level of the exemption will be indicated on the certificate issued to individual EILs for the purpose of the CFD exemption. This same certificate will be used for the RO exemption. In many cases the exemption will be for the full 85% but could be lower, i.e. 70%. Suppliers will therefore be required to submit ROCs on at least 15% of the electricity supplied to the eligible EIL.

Summary of responses

69. The majority of respondents agreed with the proposal on the basis that they considered it unlikely equivalent data could be obtained more accurately from other sources. There were a number of caveats including:
- Suppliers should not be held responsible for providing data in respect of those parties who have not duly applied for the compensation/exemption, nor indeed those who have duly applied but do not notify the supplier of their approved eligibility;
 - Further consideration needs to be given to how suppliers will in practice identify eligible ELLs in their system and accurately capture and report on the volumes supplied;
 - Given its potential impact on the accuracy of the RO, suppliers asked for more information on exactly how BEIS would use estimates of electricity supplied to ELLs in the calculation of the total obligation and obligation level as well as how they would deal with risks such as new eligible ELLs coming online or others closing during the obligation year.
70. One respondent conceded that it may be slightly more accurate to obtain forecasts direct from the ELLs, but accepted that the benefit would need to be balanced against any additional administrative burden for Government and ELLs.
71. Two respondents thought that BEIS will need to consider what arrangements need to be made to accurately estimate electricity supply where one eligible ELL business 'onward-supplies' electricity to another, and one pointed to the arrangements in place under the Climate Change Agreements for dealing with this situation and suggested that similar provisions may prove to be appropriate for the exemption.
72. Four respondents disagreed with the proposal. Key points made were:
- Energy suppliers do not know the business plans of their customers and therefore are not well placed to estimate how much electricity they will use. Even when historical consumption data is available a company might be about to downsize or increase output, but will not necessarily inform suppliers of this;
 - There was concern that requiring energy suppliers to make this estimation will only increase their administrative costs of serving ELL customers, which would simply be passed on in higher tariffs;
 - The ELL customer is in the best position to know the consumption patterns of their business and provide an accurate estimate of future electricity use;
 - In the first year of the exemption it would make sense for the RO to be set on the basis of Government data from ELL applications under the compensation scheme and for future years, data provided from the preceding compliance year.

Government response

73. We have considered carefully the various options suggested by respondents for obtaining accurate data on the volumes of exempt electricity supplied to eligible ELLs (i.e. the volume of so called "ELL excluded electricity"). Whilst we agree that

requesting bespoke estimates for eligible EIs could potentially provide greater accuracy, this would add an additional burden to the sector and it would be extremely resource intensive for BEIS to survey and analyse individual responses from 100 plus eligible EI companies. Similarly, the option of asking suppliers of eligible EIs to provide estimates of future electricity use by these individual customers would increase the burden on relevant suppliers - with costs potentially priced into electricity bills - and there is in any case uncertainty over just how much intelligence a supplier would have on an EI's future electricity use.

74. We have therefore concluded that, to inform setting the adjusted obligation level for the first two years of the exemption, we will use historic consumption data which has already been supplied to BEIS by EIs who have been assessed as eligible for the current compensation scheme. BEIS published a technical note setting out estimates of eligible RO scheme exempt electricity volumes alongside the consultation on the EI exemption from the indirect costs of the CFD²². This estimate of the volume of eligible exempt electricity has been updated in the Government response relating to the CFD exemption²³. Making use of this published information ensures that our evidence base is transparent. We have included as part of our response to question 10 a version of the 2017/18 obligation level published on 1 October 2016 which has been adapted in line with the changes required to implement the exemption. This uses the estimates of supply to eligible EIs (so called EI excluded electricity) set out in the Government Response relating to the CFD exemption.
75. For subsequent obligation years, we will use data on EIs' electricity use during the previous obligation year obtained through the RO end-year compliance process to inform our estimates of EI excluded supply. As is the case with the various other assumptions underpinning the setting of the obligation level we will review these data in light of any further robust intelligence we can obtain (for example from BEIS' commercial experts on likely fluctuations in these volume figures as a result of changes in individual companies' consumption patterns for their business, i.e. arising from major changes in productivity). We have noted the point flagged by stakeholders about the potential difficulty of making an accurate estimate of electricity supply where one eligible EI business 'onward-supplies' electricity to another. However as estimates are made on previous years' data, starting with the existing compensation scheme, this will be accounted for as part of the application process.

²² <https://www.gov.uk/government/consultations/energy-intensive-industries-exemption-from-indirect-costs-of-the-contracts-for-difference-scheme>

Question 9

Consultation Question

17 Responses

Do you agree with the proposed changes to the information that suppliers are required to provide to allow Ofgem to calculate the total number of ROCs required for a supplier to discharge its annual renewables obligation after the end of the obligation year? If not please explain why.

| | | | |
|--|------------|----|--|
| | Agree | 12 | |
| | Disagree | 4 | |
| | Don't Know | 1 | |

See Consultation on an exemption for EII from the costs of the RO and the FIT schemes Chapter 3

Consultation position

76. In order to enable Ofgem to calculate suppliers' individual obligations taking into account the exemption we proposed to require suppliers to provide Ofgem with information on (i) total electricity supplied and (ii) EII excluded electricity supplied. This will allow Ofgem to calculate the amount of non-EII excluded electricity supplied.
77. Ofgem would then calculate an individual supplier's obligation after the end of the obligation year by multiplying the amount of non-EII excluded electricity supplied to customers in England and Wales, and Scotland and Northern Ireland by the obligation level for that country.

Summary of responses

78. The majority of respondents agreed with the proposal, however they did so without comment.
79. Of those that disagreed, one respondent believed that further validation by Ofgem will be necessary in order to ensure that the period over which the exemption is applied and the percentage of volume exempt has been correctly calculated by suppliers.
80. A more technical response was provided by a stakeholder who stated the current method of calculating a given supplier's consumption is based on D296 data flows. These are a snapshot of all consumption of the financial year just closed, at a specific point in the settlement runs, which all suppliers must use. They did not see how EII consumption could be removed from this as there is no distinction between EII D296s and other D296s.
81. One stakeholder noted that a flow of data identifying the exempt sites and the metered data will be provided direct to the Low Carbon Contracts Company (LCCC). LCCC should forward these data to Ofgem who will be able to make the

adjustments to data provided by each supplier on their gross position. If this does not happen each supplier will need to put in place additional arrangements to aggregate the EII site data themselves.

Government response

82. We have decided to proceed with implementing this proposal as set out in the consultation document and intend to amend the RO Order 2015 to require suppliers to provide Ofgem as part of the RO end year compliance process with information on (i) total electricity supplied and (ii) EII excluded electricity supplied. This will enable Ofgem to calculate for each supplier the amount of non-EII excluded electricity and apply the correct individual obligation levels.
83. Please refer to guidance on EII excluded electricity published by LCCC²⁴ for further information on how EII consumption will be removed from suppliers' consumption data.
84. As explained in more detail in the response to question 14, Ofgem will access data used by the LCCC to administer the CFD exemption in order to validate the data on EII excluded electricity provided by suppliers as part of the RO compliance process. Provision for LCCC to share these data is incorporated into the draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017²⁵.
85. At a minimum, suppliers need to provide Ofgem with the following information:
 - Total electricity supplied;
 - Total exempted electricity supplied to EII's.
86. As per current processes, all volumes presented by suppliers for RO compliance including exempt supply to EII's will be validated by data provided from LCCC/Elexon.

²⁴ Low Carbon Contracts Company guidance on EII excluded electricity, 2017, at: <https://lowcarboncontracts.uk/sites/default/files/publications/LCCC%20Guidance%20on%20EII%20Excluded%20Electricity%20-%20Relevant%20Arrangements.pdf>

²⁵ Draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017, at, <http://www.legislation.gov.uk/ukdsi/2017/9780111157015/contents> - these regulations were laid in draft on 28 March 2017, before Parliament was dissolved, and the subject of a continuation motion in this Parliament on 22 June 2017

Question 10

Consultation Question

20 Responses

Do you agree with our proposed changes to the arrangements for setting the obligation level for England and Wales for 2017/18 in the event that DECC decides to implement the exemption? If not please explain why and if possible suggest alternative approaches.

| | | |
|--|------------|----|
| | Agree | 12 |
| | Disagree | 7 |
| | Don't Know | 1 |

See Consultation on an exemption for ELLs from the costs of the RO and the FIT schemes Chapter 3

Consultation position

87. We proposed to publish two versions of the 2017/18 obligation level. We would, as required under current RO rules, publish the obligation level for England and Wales (and with the consent of the Scottish Government, for Scotland) for 2017/18 calculated using the current rules by 1 October 2016.
88. Alongside this, or shortly afterwards, we proposed to also publish an estimate of how the obligation level for England and Wales and Scotland would be adjusted to account for the ELL exemption, to provide an indication of what these would become if the exemption were to be implemented and to help mitigate some of the uncertainty to suppliers.
89. Assuming the necessary State aid approval is received, we proposed to then adjust the level of the obligation for England and Wales for 2017/18 (and Scotland) to account for the ELL exemption before 1 April 2017, through changes to the RO Order 2015.

Summary of responses

90. Many of those who agreed considered that the proposal was not ideal but conceded that they could see no alternative option if Government wished to have the exemption in place by 1 April 2017 (given the need for legislative changes and State aid approval). The following concerns were raised:
 - Delays in finalising the 2017/18 obligation would cause uncertainty and make forecasting costs very difficult – it is likely that the market will price on the assumption that the obligation level will be adjusted, unless it becomes clear at a very early stage that it is not going to happen;

- Publication of two obligation levels (albeit one is indicative only) may cause uncertainty and confusion for customers and other stakeholders (i.e. generators).

91. Respondents asked for further information or clarification on:

- What would happen if State aid clearance has not been received prior to April 2017. Would Government consider changing the obligation level within year or postpone implementation until the following compliance period?
- What minimum notice period would be given prior to the exemption coming into force. How will BEIS inform suppliers and EII consumers of the date at which the exemptions will come into force?

92. Points raised by those who disagreed with the proposal included:

- The continued uncertainty over when the exemption will come into effect and how the revised obligation will be calculated (which cannot be confirmed until State aid approval is granted) would lead to increased costs for consumers (as risk premia will be priced into bills);
- A small number of respondents stated that fixed tariffs can be up to two years long and will have been set on the assumption of the current RO. Suppliers will not be able to add the additional cost to these fixed tariffs until after they have ended and would therefore need to put a higher cost on rolling tariffs;
- It was suggested that the uncertainties would also cause issues for customers when it comes to budgeting. The point was made that given RO costs form approximately 7% of the customer's bill over the ten year period, the potential variation caused by the inclusion or not of the exemption will be significant;
- It was suggested that the publication of two potential rates does not mitigate uncertainty as it will not be clear which level applies (and what the costs to EII and non-EII consumers will be) until Government confirms the final rate.

93. In light of the concerns outlined above:

- Two respondents suggested that the introduction of the exemption should be delayed until 1 April 2018/19 to enable sufficient time for suppliers and impacted business customers to make any necessary adjustments required for the introduction of the exemption;
- One respondent suggested that 18-24 months' notice should be given before this exemption is applied (and that this clock should not start ticking until after State aid approval has been granted);
- One respondent suggested that Government should set a clear cut off date well before 31 March 2017 by which time, if State aid and legislative clearances were not in place, a decision should be made to defer.

Government response

94. We have now received State aid approval²⁶ but, due to delays in the timetable for introducing the exemption, we have decided that we will now aim to introduce the exemption from 1 January 2018 subject to the necessary revisions to the RO Order 2015 coming into force and publication of a revised renewables obligation level by 31 October 2017. Introducing the exemption from 1 January 2018 will require us to adjust the 2017/18 obligation level that was published on 1 October 2016. If the implementing legislation has not come into force and a revised 2017/18 obligation level has not been published by 31 October 2017, our intention is that 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 that if we publish the revised 2017/18 obligation level in November, it will come into effect from 1 March 2018.
95. Introducing the exemption will also entail adjusting the obligation level for the 2018/19 obligation period (running from 1 April 2018 to 31 March 2019). The 2018/19 obligation level will be calculated in accordance with the current methodology (i.e. not taking into account the changes needed to implement the exemption) and must be published by 1 October 2017. When we publish the 2018/19 obligation level, to aid understanding and provide advance notice, we will also provide an estimate of how the 2018/19 obligation level would be adjusted to account for the EII exemption. We then intend to publish the final revised 2018/19 obligation level alongside the revised 2017/18 obligation level.
96. After 30 November 2017, we would no longer adjust the 2017/18 obligation level to implement the exemption but would aim to bring the exemption in for 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.
97. We note that a number of suppliers suggested that implementation of the exemption should be delayed until 2018/19 to provide more time to prepare for its introduction. We have considered the various concerns raised by respondents very carefully but we consider it essential to bring the exemption into force as soon as practicable in order to provide long-term certainty to EIIs and to support their competitiveness. The plan to move from compensation to an exemption was initially announced by the then Chancellor in Spending Review 2015²⁷, 16 months prior to 1 April 2017, when we originally intended the exemption to come into effect. No quantitative evidence has been produced to suggest that a 24 month notice period from State aid approval is necessary.
98. Introducing the exemption from 1 January 2018 will mean changing the obligation level part-way through the obligation period. We acknowledge that this represents a departure from the current practice of setting and publishing a single obligation

²⁶ State aid approval was granted on 12 June 2017 – Commission case number SA45155 (the public version of this Commission decision is not yet available).

²⁷ <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

level six months ahead of the obligation year and that this will cause a degree of uncertainty for suppliers and other non-EII electricity customers. However, we have aimed to balance the need to introduce the exemption as soon as possible to provide certainty to EIIs, with the practical and wider impacts of potentially revising the supplier obligation level during the course of an obligation year. We recognise in particular that suppliers require sufficient notice of the obligation level to allow them to accurately forecast costs for customer bills and we have taken this on board in our implementation proposals by building in a period of notice to enable (a) the necessary guidance and administrative processes to be put in place and (b) suppliers to adapt their systems. By setting an intended start date of 1 January 2018 for the exemption we are providing an approximately 5 month notice period of its introduction. If this intended start date is missed, suppliers will have at least 3 months' advance notice of the exemption coming into effect.

99. The 2017/18 obligation level for Great Britain was published by BEIS and the Scottish Government on 1 October 2016²⁸. This was calculated in accordance with the methodology currently set out in the RO Order 2015 and does not account for the exemption.
100. The total UK obligation (including 10% headroom) has been set at 119.1m ROCs and the obligation level for Great Britain at 0.409 ROCs per MWh (and at 0.167 ROCs/MWh for Northern Ireland).
101. If, as is the intention, the exemption is introduced part way through the 2017/18 obligation period, the published obligation level for 2017/18 for Great Britain will apply until such time as the exemption comes into effect in line with the timings set out in paragraphs 95 and 96. Once the implementing legislation has come into force, we intend to publish a revised Great Britain obligation level that is adjusted to account for the EII exemption and which will apply for the remainder of the obligation period.
102. We have set out below and in Annex B an indication of how the 2017/18 Great Britain obligation level published on 1 October 2016 would change if it had been calculated in accordance with the revised exemption methodology outlined in response to question 6.
103. In carrying out this calculation we have assumed that the total amount of EII excluded electricity in Great Britain in 2017/18 is 9.9TWh (i.e. 85% of 11.7TWh) in line with the central scenario of BEIS' technical note on RO / FIT exempt electricity volumes published in August 2016 and updated in the Government Response to the CFD exemption published in March 2017²⁹. We have assumed that there will be no change to the total UK obligation (119.1m ROCs) or any of the other assumptions underpinning the calculation.

²⁸ The Renewables Obligation 2017/18 (BEIS October 2016), at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/557347/RO_setting_2017-18_explanatory_note_-_1_October_2016.pdf

²⁹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/593191/eiis-exemption-from-indirect-costs-cfd-government-response-to-consultation.pdf

104. Applying this revised methodology means the obligation level in Great Britain would increase from 0.409 ROCs/MWh to 0.423 ROCs/MWh. The obligation level for Northern Ireland would remain at 0.167 ROCs/MWh as Northern Ireland is not implementing the exemption for 2017/18.
105. We will continue to keep stakeholders informed of on-going progress with the implementing legislation, through our regular engagement channels. Any changes to our evidence base on the volumes of EII excluded electricity will be published by means of an update to the technical note published in August 2016.

The Feed-in Tariff

We set out in Chapter 4 of the consultation document how we proposed to modify the manner in which supplier liability for the FIT scheme costs is calculated to account for electricity supplied to eligible ELLs.

106. This Government response relates to implementing an exemption for ELLs from the indirect costs of the **RO scheme only**. We will respond on implementing an exemption for ELLs from the indirect costs of the FIT scheme in due course.

Administrative Process

We set out in Chapter 5 of the consultation document the administrative issues relating to implementing the exemption.

107. We proposed to make the RO and FIT schemes exemption available to the same ELLs that are eligible for the RO and FIT compensation scheme and the CFD (Contracts for Difference) exemption. On this basis, we proposed to use existing processes to keep the administrative costs and burden to a minimum for both ELLs and Government. BEIS published draft guidance on how to be issued with an ELL exemption certificate for the purposes of the CFD exemption in March 2017³⁰. Guidance on “relevant arrangements” relating to ELL excluded electricity was published by the Low Carbon Contracts Company (LCCC) in March 2017³¹ and will be of interest to suppliers.
108. We also sought views from stakeholders regarding the monitoring and transparency arrangements, the exchange of information between Ofgem and LCCC, supplier pass-through and impacts on suppliers.

Question 13

| Consultation Question | | 27 Responses |
|---|----|--------------|
| Are the monitoring and transparency arrangements appropriate? Do you agree? | | |
| Agree | 22 | |
| Disagree | 3 | |
| Don't Know | 2 | |

See Consultation on an exemption for ELLs from the costs of the RO and the FIT schemes Chapter 5

³⁰ <https://www.gov.uk/government/consultations/energy-intensive-industries-exemption-from-indirect-costs-of-the-contracts-for-difference-scheme>

³¹ Low Carbon Contracts Company guidance on ELL excluded electricity, 2017, at: <https://lowcarboncontracts.uk/sites/default/files/publications/LCCC%20Guidance%20on%20ELL%20Excluded%20Electricity%20-%20Relevant%20Arrangements.pdf>

Consultation position

109. We proposed that BEIS will monitor EII applications and will from time-to-time undertake further validation or investigation. This will include, but is not limited to, the amount of the exemption claimed, the complexity of the business and random audits. The application process also requires an independent accountant's report in some circumstances.
110. Additionally, we proposed that BEIS will publish details of eligible EIIs and the aid received by each within a range of values as required by the EEAG.

Summary of responses

111. Generally respondents are in agreement with the transparency and monitoring arrangements although they requested that:
- Information published should not include commercially sensitive information relating to recipients of the exemption (specifically, highly sensitive energy usage information);
 - Any validation, investigation or audit arrangements should be kept to a minimum to reduce administrative burden;
 - Appropriate time should be allowed from publication of the EII exemption process to allow applicants to include their independent accountant's reports in the submission.
112. There were requests particularly around information flow. Suppliers requested transparency and visibility of the overall level of EII volume as this will help them in reducing costs associated with forecasting risk. They also requested that BEIS publish details of the eligible EIIs as this would provide an additional check for suppliers that the exemption certificate is genuine. Other requests were:
- Ofgem should coordinate with the LCCC to consider what information might be provided through the latter's transparency tool to keep suppliers informed;
 - Suppliers will need to be told as quickly as possible should circumstances change so that billing can be amended and so suppliers have certainty of their liabilities, which may impact for example, ROC purchasing;
 - Any scenario where an exemption percentage changes should only take effect once the supplier has been informed i.e. a supplier's liabilities should not be amended retrospectively;
 - Government should provide as much detail as possible on the assumptions they use when calculating the revised RO obligation.
113. Only three respondents disagreed with the arrangements, one stating they would like more clarification around the process echoing the comments made by those who agreed.

Government response

114. We intend to continue with our proposed monitoring and transparency arrangements. There was broad agreement for our proposal, and those who

disagreed requested further clarification around the monitoring arrangements which BEIS is addressing in the draft guidance on the CFD exemption.

- 115. All volumes of electricity presented by suppliers for compliance including exempt supply to EII will be validated by Ofgem with data provided by LCCC/Elexon.
- 116. If a business's circumstances change in a way as to affect their eligibility or the proportion of exemption they are entitled to, then we will revoke their exemption certificate or issue a notice specifying the correct proportion as necessary and as soon as is reasonably practicable. BEIS will inform LCCC and LCCC will inform the electricity supplier.
- 117. We are considering options for a mechanism to recover and redistribute any over-exemption to EII, although in the meantime, recovery will be possible where necessary under generally applicable law.
- 118. In line with the EEAG, Government will also publish the identity of the individual beneficiaries, the type of undertaking, the region in which the beneficiary is located, the principal economic sector in which the beneficiary has its activities and the aid amount in ranges.

Question 14

| Consultation Question | 27 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

We propose for Ofgem to access data used by the LCCC to administer the CFD exemption in order to validate the data on EII exempt electricity supplied by suppliers. Do you agree? If not, what alternatives should be considered?

| | | | |
|--|------------|----|--|
| | Agree | 25 | |
| | Disagree | 1 | |
| | Don't Know | 1 | |

See Consultation on an exemption for EII from the costs of the RO and the FIT schemes Chapter 5

Consultation position

- 119. Ofgem will continue to administer both the RO and the FIT schemes, and be responsible for validating the information on EII exempt electricity provided to them by suppliers. To accomplish this, Ofgem may need access to data on EII exempt electricity supplied by suppliers and collected by the LCCC for the purposes of administering the CFD exemption, otherwise a separate and duplicate data collection process may need to be established. We have considered whether this will require legislative provision.

Summary of responses

120. The majority of respondents agreed with the proposal. It was noted by respondents that:

- The proposal will require energy suppliers to understand any onward supply of electricity to EII businesses or for more complex installations with multiple consumers, the proportion of electricity supplied to each of the EII businesses taking into account that consumption allocations will vary year on year;
- The definition of demand under CFD is different from that used for RO. CFD is based on gross demand at the National Balancing Point (i.e. it is adjusted for distribution and transmission losses). The CFD settlement system will provide a view of which exempted MPANs³² were registered to which suppliers, but the relevant consumption for those MPANs will need to be based on different Balancing & Settlement Code data flows.

121. One respondent was concerned that the proposed obligation setting approach does not include any crosschecking of the data provided by energy suppliers against the data provided by businesses applying for compensation or exemption. It was suggested that government use the data already submitted to BEIS in the application for compensation.

Government response

122. We intend to continue with our proposal of Ofgem accessing LCCC's data in order to validate EII exempt electricity data supplied by suppliers. A provision allowing for this is incorporated into the draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017³³ which were laid in Parliament on 28 March 2017. There was overwhelming agreement for our proposal, and only one respondent disagreed, not giving evidence as to why.

123. Please see our response to question 8 on onward supply of electricity.

124. Ofgem will access data used by the LCCC to administer the CFD exemption in order to validate the data on EII exempt electricity supplied by suppliers. The data they receive on RO for total supply validation is also loss adjusted data.

³² mpans stands for 'Meter point administration numbers'.

³³ Draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017, at, <http://www.legislation.gov.uk/ukdsi/2017/9780111157015/contents> - these regulations were laid in draft on 28 March 2017, before Parliament was dissolved, and the subject of a continuation motion in this Parliament on 22 June 2017

Question 15

| Consultation Question | 53 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

We do not propose to regulate to require that suppliers pass through the exemption to eligible businesses. Do you agree? If not, what alternatives should be considered?

| | | | |
|--|------------|----|--|
| | Agree | 20 | |
| | Disagree | 28 | |
| | Don't Know | 5 | |

See Consultation on an exemption for EILs from the costs of the RO and the FIT schemes
Chapter 5

Consultation position

125. We expect that competitive market forces will ensure that electricity suppliers pass through the exemption to eligible businesses.

Summary of responses

126. 20 respondents agreed with the above proposal, the reasons given as follows:

- Regulation would be an unjustified market intervention and an unnecessary administrative burden;
- Suppliers should have freedom to decide the best approach;
- Competition will ensure pass-through;
- Pricing is often negotiated and it is not practical to regulate.

127. A number of respondents agreed but gave caveated responses:

- Government needs to monitor implementation to ensure the market functions correctly;
- Suppliers need to provide *comprehensive* itemised billing information;
- If suppliers fail to pass-through the exemption government should be ready to regulate.

128. The majority of respondents disagreed with the proposal. A common point made throughout the responses was a lack of trust and transparency in energy suppliers adding that without legislation there would be an incentive to game the system.

129. One respondent suggested that it is only possible to rely on market forces if an EIL is aware of the exemption due in monetary terms without relying on suppliers to provide this information. Currently there is no way a business can undertake such an independent check, or suggestion that the Government will on a business's behalf.

130. Suggestions raised to ensure the pass-through of the exemption were:

- Stipulate service level targets for suppliers e.g. implementing the pass through x days after complete submission of advice;
- Suppliers should be required to prove that they have passed through the exemption. This could be in the form of an annual statement to the EII;
- An amendment to Supplier Licence obligation to ensure the exemption is made a mandatory obligation.

Government response

131. We recognise that the majority disagreed with our proposal to not regulate suppliers to pass through the exemption to eligible businesses due to a lack of trust. However, in response to concerns over the effectiveness of market forces in incentivising the pass-through of the exemption to consumers, we are not convinced that regulation or licensing is necessary and consider that our approach remains appropriate.

132. We have not seen evidence that the retail market for electricity supply to industrial customers is uncompetitive. Should some suppliers not pass through the exemption then this should be clear in the tariffs on offer and it is open to EIs to switch their supplier. Furthermore, EIs are at liberty to request itemised billing. We encourage EIs to approach their suppliers to have their energy bill clearly explained itemising the policy costs if they have not already done so.

133. In addition, prescribing how suppliers can charge specified customer groups would be very difficult to administer or sensibly enforce without forensic scrutiny of individual supplier accounts.

134. Nevertheless, the Government expects that any eligible EI not seeing the benefit of the exemption reflected in its energy bills will raise this with Government and we will engage with eligible EIs on this point.

Question 16

| Consultation Question | 20 Responses |
|-----------------------|--------------|
|-----------------------|--------------|

For suppliers, to what extent do you think the proposed exemption scheme will affect administrative costs, visibility of changing costs and your competitiveness? Please provide evidence and a quantification of the impact?

See Consultation on an exemption for EIs from the costs of the RO and the FIT schemes Chapter 5

Summary of responses

135. Supplier comments covered two main points, uncertainty and administrative costs.

136. Suppliers believe that customers want price assurance and a longer lead time would minimise uncertainty as any additional costs would have been factored into fixed contracts and would not come as a surprise. They are also concerned about the potential uncertainty added to forecasting and the timing of information becoming available to factor into pricing and products.
137. One supplier said ‘there will be a large administration cost associated with issuing change of law clauses with existing customers. As a supplier selling to SME customers, a significant proportion of our Fixed Price Fixed Term contracts go well beyond April 2017. With the cost of EII exemption estimated to be ~ £1.6/ MWh, the financial impact runs into the £millions.
138. The highest cost burden will be in relation to long-term contracts with non-EII customers, which suppliers may not be able to amend in advance of this change coming into effect. This could cause cash flow problems for suppliers.
139. The timescales for confirmation of implementation will impact on both the ability to deliver the necessary IT changes and the costs and hence the more notice provided the better: the administrative costs will be low if it follows the CFD scheme, but a bespoke system will make costs higher.

Government response

140. We recognise that the exemption will introduce some administrative costs to electricity suppliers; the impact assessment³⁴ estimates these costs and we believe the costs are relatively small.
141. We understand the need for transparency and have set out details of how the exemption will operate in question 17, to give stakeholders as much time as possible to amend their administrative processes. We understand the damage that sustained uncertainty can bring so BEIS will continue to communicate regularly with all stakeholders and provide as much certainty as possible. We will provide guidance on the application process when the scheme is launched.
142. The exemption was initially announced by the then Chancellor in Spending Review 2015³⁵ and we will lay draft legislation before Parliament which, subject to Parliamentary approval, will enter into force.

³⁴ <https://www.gov.uk/government/consultations/implementing-an-exemption-for-energy-intensive-industries-from-the-indirect-costs-of-the-ro-and-the-fits>

³⁵ Spending review and Autumn Statement, 2015, at: <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

Question 17

Consultation Question

21 Responses

What other impacts on suppliers should be considered?

See Consultation on an exemption for EILs from the costs of the RO and the FIT schemes
Chapter 5

Summary of responses

143. Suppliers' comments tackled a number of points, including complexities of the RO and the FIT.
144. Suppliers raised a number of questions and suggestions regarding the process of the exemption. These included:
- How will the process work in the event that an exempt consumer is supplied via an operator of a closed distribution system who is not a formally licensed supplier?
 - When the electricity measured by a meter is split between exempt and non-exempt activities, a simple and transparent process should be in place to ensure that the correct amount of exemption is applied without significant reconciliation;
 - There needs to be a system to handle a situation where a supply contract changes – this could be part way through a compliance year, meaning one supply company could over-claim for an exemption, while another under-claims. Complexity of system changes would make this a difficult change to implement mid-year;
 - If EIL Exemption certificates will come into force the day after they are issued, this may cause some issues for suppliers as they will have to re-allocate contracts in their system for a backdated period. Consideration needs to be given to the scenario where a customer is late producing a certificate to their supplier;
 - Concerns about data changes after reconciliation. A small number of suppliers have experience under the RO of being unable to recoup overpaid monies where metering issues have come to light late in the day;
 - One respondent commented 'We would like further clarification on who has visibility of EIL certificates, and how they will be recorded by the supplier. We believe that as these are not confirmed by a dataflow or central register, there will be a risk of misreporting by suppliers and increased administrative burden.'
145. Two RO publications would be extremely complicated to introduce and bill - many billing systems will be set up to have an annual system rate for RO and a mid-year update will cause significant issues (e.g. potential rebills for all previous periods).

Government response

146. In the event that a business receives electricity from a third party (not a licensed electricity supplier) we will provide a certificate to both parties and it is expected that the third party will submit this to their licensed electricity supplier. We are addressing this issue as part of the draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017³⁶.
147. The application process for the RO exemption will be based on processes set up for the CFD exemption, for which we have published draft guidance.
148. Certificates will come into force on the day after the day on which they are issued (or, where a certificate is already in force, on the day after that certificate expires). However, the exemption will not be applied until suppliers have made the necessary changes to their systems to account for it. In order for the scheme to function effectively it is in the interest of both EIs and suppliers in making this happen as soon as possible as the exemption will not be backdated.
149. We note the concern about ‘the visibility of EI certificates’. We understand this to be a concern about the role of the supplier in verifying a business’s eligibility for the exemption, and the administrative burden this would impose on suppliers. Suppliers will not be required to verify a business’s eligibility for the exemption. Suppliers will be notified by an EI customer if it holds a valid EI certificate. Having been notified, the supplier must ensure the relevant arrangements are in place for the EI exemption to be applied within the time frames specified in the amendments to the Balancing & Settlement Code. The CFD counterparty (LCCC) is required to inform the supplier as soon as reasonably practicable after a variation or revocation notice is issued in respect of the EI certificate (which takes effect on the 6th day after it is issued), so that the supplier will be aware of any changes before they take effect. Suppliers may, for their own administrative purposes, ask a business to provide evidence of certification and provide notice of changes to certification – however suppliers will not have a statutory requirement to check certification.
150. In the consultation document we proposed that EIs will not be required to apply for certification under the RO scheme. Instead an EI certified for the purpose of the CFD exemption will be eligible for the RO exemption. The concerns raised by respondents to this question regarding the complexity of supply can be clarified by referring to the guidance published by the LCCC in March 2017³⁷.
151. As with question 16, we note the concerns shared by suppliers. BEIS will continue to work with all suppliers and to provide as much certainty as possible.

³⁶ Draft Electricity Supplier Obligations (Amendment & Excluded Electricity) (Amendment) Regulations 2017, at, <http://www.legislation.gov.uk/ukdsi/2017/9780111157015/contents>

³⁷ Low Carbon Contracts Company guidance on EI excluded electricity, 2017, at: <https://lowcarboncontracts.uk/sites/default/files/publications/LCCC%20Guidance%20on%20EI%20Excluded%20Electricity%20-%20Relevant%20Arrangements.pdf>

Annex A – Methodology to calculate the total obligation and obligation levels for England and Wales with the exemption

Calculation A (total obligation level in ROCs)

1. Before an obligation period, the BEIS Secretary of State (SoS) estimates, in megawatt hours (MWh), the total electricity likely to be supplied in Great Britain (GB) by licensed electricity suppliers supplying electricity in England and Wales and licensed electricity suppliers subject to the RO in Scotland. This is defined as C_{GB} ,
2. Multiply C_{GB} by 0.154. This output is Calculation A at the GB level.
3. Before an obligation period, SoS estimates total electricity likely (in MWh) to be supplied in Northern Ireland (NI) during that period by licensed electricity suppliers subject to the RO in Northern Ireland. This is defined as (C_{NI})
4. Multiply C_{NI} by 0.063. This output is Calculation A at the Northern Ireland level.
5. Add Calculations A for GB and NI (i.e. add output of (2) and (4)). This is calculation A at the UK level (**Calculation A_{UK}**).
6. (Where Calculation A is not a whole number, round to the nearest whole number, one half being rounded upwards).

Calculation of total UK electricity supply by licensed suppliers

7. Add C_{GB} and C_{NI} (i.e. the combination of outputs (1) and (3)) to get C_{UK}

Calculation B (Total obligation level in ROCs)

8. Before the start of each obligation period, SoS estimates, in MWh, the total amount of renewable electricity likely to be generated from plants accredited under the RO and thus supplied to customers in the UK during that period by electricity suppliers supplying electricity in England and Wales and electricity suppliers subject to the RO in Scotland and Northern Ireland.
9. Having regard to the output of step 8, SoS estimates how many UK ROCs are likely to be issued during the obligation period.
10. The estimate at step 9 of UK ROCs likely to be issued is increased by 10%. This is Calculation B_{UK} .
11. Where Calculation B_{UK} is not a whole number it is to be rounded to the nearest whole number, one half being rounded upwards.

Calculation of EII excluded electricity

12. The SoS estimates the amount of exempt electricity likely to be supplied to energy intensive industries eligible for an exemption from the costs of the Renewables Obligation (EII excluded electricity) in GB during the obligation period. This is defined as D_{GB} .

Determining the total obligation (i.e. deciding whether to use Calculation A or Calculation B to set the obligation)

13. The SoS determines the total obligation (total number of UK ROCs required to be produced by licensed suppliers supplying electricity in England and Wales) as follows:
 - (a) Where Calculation $A_{UK} \geq$ Calculation B_{UK} , the total obligation is Calculation A.
 - (b) Where Calculation $B_{UK} >$ Calculation A_{UK} , the total obligation is Calculation B.

Unadjusted obligation level based on calculation A (i.e. without exemption)

14. Where the total obligation for an obligation period is Calculation A, a supplier supplying electricity in England and Wales is required to produce 0.154 UK ROCs for each megawatt hour of electricity supplied during that period.

Unadjusted Obligation level based on Calculation B (i.e. without the exemption)

15. Where the total obligation for an obligation period is Calculation B, the obligation level is calculated as set out in the following paragraphs.
16. SoS calculates $E_{E\&W}$ where $E_{E\&W}$ is equal to (ROCs / MWh) as follows:

$$\frac{(\textit{Calculation } B_{UK} \textit{ for that period} \times 0.154)}{(\textit{Calculation } A_{UK} \textit{ for that period})}$$

17. SoS calculates E_S where E_S is equal to (ROCs / MWh) as follows:

$$\frac{(\textit{Calculation } B_{UK} \textit{ for that period} \times 0.154)}{(\textit{Calculation } A_{UK} \textit{ for that period})}$$

18. SoS calculates E_{NI} where E_{NI} is equal to (ROCs / MWh):

$$\frac{(\textit{Calculation } B_{UK} \textit{ for that period} \times 0.063)}{(\textit{Calculation } A_{UK} \textit{ for that period})}$$

19. E_{GB} takes the same value as $E_{E\&W}$ and E_S .

Calculating adjusted individual obligations (ROC/MWh) for calculation A and B (i.e. with the exemption)

20. Where the total obligation for an obligation period is **Calculation A**, the number of UK ROCs a supplier supplying electricity in England and Wales is required to produce for each megawatt hour of electricity it supplies to customers in England and Wales during that period that is not EII excluded electricity is:

$$\frac{(C_{GB} \times 0.154)}{(C_{GB} - D_{GB})}$$

21. Where the total obligation for an obligation period is **Calculation B**, the number of UK ROCs that a supplier supplying electricity in England and Wales is required to produce is, for each megawatt hour of electricity supplied during that period that is not EII excluded electricity:

$$\frac{(E_{E\&W} \times C_{GB})}{(C_{GB} - D_{GB})}$$

Annex B – Comparison of the agreed, current and proposed Renewable Obligation setting methodologies

Table B.1: Comparison of agreed adjusted RO setting methodology with the current methodology and the methodology proposed in the consultation of changes

| Outline of current methodology as set out in Renewables Obligation Order 2015 | Calculation of obligation for Great Britain (GB) and Northern Ireland under current methodology | Calculation of obligation for Great Britain (GB) only under revised methodology proposed in consultation document | Calculation of obligation for Great Britain (GB) only under the final revised methodology |
|--|---|---|--|
| | <p>Worked example of calculation carried out in accordance with current methodology (based on actual 2017/18 obligation setting data³⁸).</p> | <p>Worked example of calculation carried out in accordance with the revised methodology proposed in the consultation document to implement the exemption for Great Britain only (based on actual 2017/18 obligation setting data).</p> <p>Assumes Northern Ireland does not adopt the exemption and Scotland adopts the exemption and makes changes to their methodology to</p> | <p>Worked example of calculation carried out in accordance with final revised methodology set out in this Government Response (see response to question 6) to implement the exemption for Great Britain only (based on actual 2017/18 obligation setting data).</p> <p>Assumes Northern Ireland does not adopt the exemption and Scotland adopts the exemption and makes changes to their methodology to</p> |

³⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560421/RO_setting_2017-18_explanatory_note_-_1_October_2016_-_typos_corrected.pdf

| | | | |
|--|--|---|---|
| | | <p>mirror the England and Wales approach.</p> <p>Also assumes that up to 85% of electricity supplied to eligible EILs is exempt.</p> <p>Also assumes that exemption is applied at the beginning of the Obligation Year.</p> | <p>mirror the England and Wales approach.</p> <p>Also assumes that up to 85% of electricity supplied to eligible EILs is exempt.</p> <p>Also assumes that exemption is applied at the beginning of the Obligation Year.</p> |
| Calculating the total obligation | | | |
| <p>Calculation A:</p> <p>Step 1: Secretary of State (SoS) estimates total electricity supply in GB. Multiply by 0.154.</p> <p>Step 2: SoS estimates total electricity supply to Northern Ireland.</p> <p>Multiply by 0.063.</p> <p>Step 3: Add output of (1) and (2). This is calculation Auk.</p> | <p>Electricity sales in GB= 288.2 TWh</p> <p>Electricity sales in Northern Ireland = 7.7TWh</p> <p>For GB 288.2 TWh x 0.154 = 44.4m ROCs</p> <p>For Northern Ireland 7.7 TWh x 0.063 = 0.49m ROCs</p> <p>Total calculation A = 44.4m ROCs + 0.49m ROCs = 44.9m ROCs (rounded)</p> | <p>We assume out of GB total of 288.2 TWh, 11.7 TWh is supplied to eligible EILs in GB; and out of total 7.7 TWh in Northern Ireland, no electricity is supplied to eligible EILs in Northern Ireland.</p> <p>Step 1 is revised so SoS estimates total supply in UK and deducts 85% of estimated supply to eligible EILs in GB. Multiply by 0.154, the GB fixed target.</p> <p>So, 288.2 TWh – (85% of 11.7TWh) x 0.154 ROCs / MWh = 42.8m ROCs</p> <p>Step 2 - methodology remains as under current rules so that</p> | <p>We assume that out of GB total of 288.2 TWh, 11.7 TWh (85% of which is exempt which gives us 9.9 TWh) is supplied to eligible EILs in GB; and</p> <p>Out of total 7.7 TWh in Northern Ireland, no electricity is supplied to eligible EILs in Northern Ireland</p> <p>Steps 1- 3 remain as in the current methodology set out in the RO Order 2015.</p> <p>For GB 288.2 TWh x 0.154 = 44.4m ROCs</p> <p>For Northern Ireland 7.7 TWh x 0.063 = 0.49m ROCs</p> <p>Total calculation A = 44.4m ROCs + 0.48m ROCs = 44.9m</p> |

| | | | |
|--|--|---|--|
| | | <p>SoS estimates total supply in Northern Ireland and multiplies by 0.063 (i.e. no deduction is made for eligible EII supplied electricity)</p> <p>So, 7.7 TWh x 0.063 = 0.486m ROCS</p> <p>Step 3 Add total of step 1 and step 2 to give total calculation A (42.8m + 0.486m = 43.3m ROCS)</p> | <p>ROCs (rounded)</p> |
| <p><u>Calculation B:</u></p> <p>Step 4: SoS estimates total renewable electricity supply as per Article 11 (1) of RO Order 2015) electricity supply in UK (E&W, Scotland and Northern Ireland).</p> <p>Step 5: Having regard to this number, SoS estimates how many UK ROCs likely to be issued. Calculate expected number of ROCs to be issued to stations expected to be operational in 2017/18 (capacity</p> | <p>As set out in Steps 4 and 5 based on bottom up analysis we estimate UK total ROCs will be = 108.2m</p> <p>Increasing this figure by 10% as set out in Step 5 is 108.2m x 110% = 119.1m ROCS (rounded)</p> | <p>Steps 4, 5 and 6 remain as per current methodology so total figure for Calculation B = 108.2m x 110% = 119.1m ROCs (rounded)</p> | <p>Steps 4, 5 and 6 remain as per current methodology so total figure for Calculation B = 108.2m x 110% = 119.1m ROCs (rounded)</p> |

Annex B – Comparison of the agreed, current and proposed Renewable Obligation setting methodologies

| | | | |
|--|--|---|---|
| <p>x number of hours in year x RO Banding x load factor).</p> <p>Step 6: Increase UK ROC estimate by 10%. This is Calculation B.</p> | | | |
| <p>Step 7: Total obligation = the greater of calculation A or B.</p> | <p>Calculation B is higher so will form the supplier obligation</p> | <p>Calculation B is still higher so will form the supplier obligation.</p> | <p>Calculation B is higher so will form the supplier obligation</p> |
| <p><u>Calculation of EII excluded electricity</u></p> | | | <p>Insert new Step 7 to estimate the amount of electricity supplied to energy intensive industries which is eligible for the exemption in GB (EII excluded electricity)</p> <p>As set out above this is assumed to be 11.7 TWh x 85% = 9.9TWh</p> |
| <p>Calculating the obligation level for GB and Northern Ireland (ROC/MWh):</p> | | | |
| <p>Step 8: Where total obligation is calculation A, the individual supplier obligation is 0.154 ROCs/MWH in GB and 0.063</p> | | | <p>If the total obligation is calculation A, then the individual supplier obligation in GB is calculated as follows:</p> |

| | | | |
|--|--|---|--|
| <p>ROCs/MWh in Northern Ireland.</p> | <p>Not applicable</p> | <p>Not applicable</p> | <p>Total amount of electricity supplied in GB (288.2 TWh) x 0.154 ROCs / MWh (fixed target) / (Total amount of electricity in GB (288.2 TWh) minus amount of EII excluded electricity (85% of 11.7 TWh)</p> <p>$(288.2 \text{ TWh} \times 0.154) / (288.2 \text{ TWh} - (11.7 \text{ TWh} \times 85\%)) = 0.159 \text{ ROCs / MWh}$</p> <hr/> <p>For Northern Ireland the individual supplier obligation is 0.063 ROC/MWh (NI is not implementing the exemption so no adjustment is made for EII excluded electricity).</p> |
| <p>Step 9: Where the total obligation is calculation B, the obligation level is</p> <p>For GB = Calculation B x 0.154) / Calculation A.</p> <p>For Northern Ireland =</p> | <p>GB obligation level calculation = $119.1\text{m ROCs} \times 0.154 / 44.9\text{m ROCS} = 0.409 \text{ ROCs/MWh}$</p> <p>Northern Ireland obligation level calculation = $119.1\text{m ROCS} \times 0.063 / 44.9 \text{ m ROCS} = 0.167$</p> | <p>GB obligation level calculation = $((119.1\text{m ROCs} \times 0.154) / 44.9\text{m}) \times 288.2 \text{ TWh} / (288.2 \text{ TWh} - (11.7 \text{ TWh} \times 85\%)) = 0.423$</p> <p>Northern Ireland obligation level calculation = $119.1 \times 0.063 /$</p> | <p>GB obligation level calculation = $(119.1\text{m ROCs} \times 0.154) / 44.4\text{m} = 0.409 \text{ ROCs / MWh}$</p> <p>Northern Ireland obligation level calculation = $(119.1\text{m} \times 0.063) / 44.9\text{m} = 0.167 \text{ ROCs / MWh.}$</p> |

| | | | |
|---|-----------------|--|--|
| <p>Calculation B x 0.063/calculation</p> | <p>ROCs/MWh</p> | <p>44.9m = 0.173</p> <p>BUT</p> <p>Because of the way the calculation is weighted between the different parts of the UK (In order to socialise RO costs across the UK), additional steps need to be introduced to prevent Northern Ireland which is not adopting the exemption, from cross subsidising the costs of the exemption in GB.</p> <p>If we do not do this and followed the same approach for Northern Ireland, its obligation level (0.173 ROCs /MWh) would work out higher than under the current obligation setting methodology (0.167 ROCs/MWh).</p> <p>To make the necessary adjustment, we need to insert</p> | <p>To implement the exemption under calculation B the following additional steps are required to obtain the obligation level :</p> <p>(i)The GB obligation level figure (0.409 ROCs/MWh) is multiplied by the total estimate of electricity supplied in GB (288.2 TWh).</p> <p>$(0.409 \times 288.2 \text{ TWh}) = 117.7\text{m}$ ROCs</p> <p>(ii) The output of this figure (117.7m ROCs) is divided by the output of the total estimate of electricity supplied in GB (288.2 TWh) minus the estimate of EII excluded electricity in in GB (85% of 11.7 TWh which gives us 9.9 TWh). This gives us the revised supplier level obligation in GB which</p> |
|---|-----------------|--|--|

two further steps.

(i) We calculate the amount of the 'cross-subsidy' for Northern Ireland.

This is the difference between (i) Northern Ireland obligation level calculated under the exemption methodology (0.173 ROCs/MWh) multiplied by electricity supplied (7.7 TWh) = 1.33m ROCS, and (ii) Northern Ireland obligation level calculated under the non-exemption (i.e. current) methodology (0.167 ROCs/MWh) multiplied by electricity supplied (7.7 TWh) = 1.29m ROCs. This works out at around (~45,000 ROCs) ;

Then:

(ii) insert a second version of Calculation B, which is the same as under the current methodology but adds the cross subsidy and deducts the total Northern Ireland ROCs.

So (119.1m) less cross subsidy (45,000) less Northern Ireland

includes the exemption:

$117.7\text{m} / (288.2\text{ TWh} - 9.9\text{TWh}) = 0.423\text{ ROCs} / \text{MWh}$

| | |
|--|--|
| | <p>total obligation (1.33m, which is 0.173 x 7.7 TWh).</p> <p>This gives us around 119.1m ROCs.</p> <p>Using the above, we repeat the same calculations for the GB obligation level and continue with step 8 and 9 but base this on the 119.1m ROCs,</p> <p>So 119.1m / 44.3m (GB Calculation A) x 0.154 (fixed target). This gives us a GB obligation level of 0.423 ROCs/MWh.</p> <p>The Northern Ireland obligation level would be 0.167 ROCS (as under the current methodology).</p> |
|--|--|

Calculating individual supplier compliance with obligation level at end of year as per current Ofgem process (set out in guidance)

| | | | |
|---|--|---|---|
| <p>For GB</p> <p>Ofgem multiply the total amount of electricity supplied by supplier in GB in MWh by supplier obligation MWh rate in GB to get number of ROCs that need to</p> | <p>Ofgem multiply the total amount of electricity supplied by supplier in GB in MWh by supplier obligation MWh rate in GB .</p> <p>For example if a supplier</p> | <p>Where an exemption is in place in GB the ROCs/MWh rate (0.423) would be applied to :</p> <ul style="list-style-type: none"> •100% of electricity supplied to | <p>Where an exemption is in place in GB the ROCs/MWh rate (0.423) would be applied to :</p> <ul style="list-style-type: none"> •100% of electricity supplied to |
|---|--|---|---|

| | | | |
|--|---|--|--|
| <p>be redeemed / payments made into buyout fund. From this the total obligation for the supplier in ROCs (or appropriate proportion thereof) can be multiplied by the buy-out price to determine payment to be made in to buy out fund</p> <p>For Northern Ireland</p> <p>Ofgem multiply the total amount of electricity supplied by supplier in NI by supplier obligation MWh rate in NI to get number of ROCs that need to be redeemed. . From this the total obligation for the supplier in ROCs (or appropriate proportion thereof) can be multiplied by the buy-out price to determine payment to be made in to buy out fund</p> | <p>supplies 220 MWh in GB the number of ROCs needed to comply would be :</p> <p>$220 \text{ MWh} \times 0.409 \text{ ROCs/MWh} = 90\text{ROCs.}$</p> <p>If a supplier supplies 220 MWh in NI the number of ROCs needed to comply would be :</p> <p>$220\text{MWh} \times 0.167 \text{ ROCs/MWh} = 7 \text{ ROCs}$</p> <p>It does not matter whether the customer is an EII or not, the same rate applies.</p> | <p>non-eligible customers</p> <ul style="list-style-type: none"> • at least 15% of the electricity supplied to eligible EII customers <p>For Northern Ireland the ROCs/MWh rate (0.167) would be applied to 100% of the electricity supplied.</p> <p>It does not matter whether the customer is an EII or not, the same rate applies.</p> | <p>non-eligible customers</p> <ul style="list-style-type: none"> • at least 15% of the electricity supplied to eligible EII customers <p>For Northern Ireland the ROCs/MWh rate (0.167) would be applied to 100% of the electricity supplied.</p> <p>It does not matter whether the customer is an EII or not, the same rate applies.</p> |
|--|---|--|--|

Annex C – List of Respondents

| | |
|--|---|
| Air Products (BR) Limited | eef |
| Aluminium Federation Ltd. | Energy Intensive Users Group |
| Bas Castings Ltd | eon |
| BOC Ltd - Industrial Gas Sector | FABRA UK |
| Bonds Foundry Group comprising three steel foundries | Federation of Small Businesses |
| Bridgenorth aluminium | Ford Motor Company Ltd |
| British Ceramic | Gazprom |
| British Glass | Haven Power Ltd |
| British Plastics Federation | Hudson Energy |
| British Poultry Council | Industrial Communities Alliance |
| Carrs Billington Agriculture | INEOS Chemicals Grangemouth Ltd |
| Carrs Flour Mills Ltd | INOVYN ChlorVinyls Limited |
| Cast Metals Federation | M J Allen Castings & Machining Ltd |
| ccc Alliance | Maltsters' Association of Great Britain |
| CEMEX UK | MPA |
| Chemical Industries Association | MRT Castings Ltd |
| Citizens Advice | Nabim |
| Cleveland Potash Limited | NEA |
| Confederation of British Metalforming | Newby Foundries Ltd |
| DONG Energy | Ofgem |
| edf | Petroineos Manufacturing Scotland Ltd |
| | Rail Delivery Group |

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| RWE npower Group Plc | The Renewable Energy Company (Ecotricity) Ltd |
| SABIC UK Petrochemicals Ltd | |
| Scottish Power | The Scotch Whisky Association |
| smartest energy | Trade Association for the UK paper sector |
| SSE | UX |
| Steel Foundry | Welsh Government |
| Tarmac | Wood Panel Industries Federation |
| Tata Steel | |

Responses were also received from 2 individuals, 5 unnamed manufacturers and 1 unnamed trade association.

