

Renewables Obligation (Scotland)

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

Consultation

June 2018

Introduction

1. The Renewables Obligation (RO) is a domestic energy and climate change policy designed to encourage investment in low carbon and renewable electricity generation and support the achievement of national decarbonisation targets. Scotland has a devolved responsibility for managing the RO in Scotland. The cost associated with funding this scheme is recovered through obligations and levies on electricity suppliers, which are passed on to consumers through their electricity bills.

2. In 2017, the Scottish Government and UK Government delivered legislative changes to create a scheme that exempts Energy Intensive Industries from a proportion of the indirect cost of the RO which are significantly large for these types of businesses. This replaced the previous compensation scheme from 1st April 2018. The UKG has made similar provisions to exempt industry from a proportion of the indirect costs of the Contracts for Difference (CfD) scheme.

3. To be eligible for exemption, businesses must pass a sector test and a 20% electrical intensity threshold.¹ As part of the Industrial Strategy White Paper, the Department for Business, Energy and Industrial Strategy (BEIS) committed to consult on widening eligibility. This is a response to criticism that current rules create competitive distortions - by providing those who are eligible with a lower cost per unit of electricity, relative to ineligible businesses who operate in the same markets.

4. Given our devolved responsibility for the RO in Scotland (the ROS)², the Scottish Government is now consulting alongside the UK government to seek views and evidence from stakeholders to understand:

1. Eligibility threshold

- a. Does the current eligibility threshold (20% electricity intensity^[1]) create any competitive distortions? Please provide evidence/explanation for your answer.
- b. If so, which of the options set out by BEIS would best address such distortions? Please provide evidence/explanation for your answer.
- c. Should SG consider amending the ROS to deliver similar [or the same?] changes? Please provide evidence/explanation for your answer.

2. Alternatives

- a. Are there alternative options to operate ROS exemption eligibility in Scotland?

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

² The Renewables Obligation is managed by the UK Government's Department for Business, Energy and Industrial Strategy in England and Wales and the Northern Ireland Renewables Obligation (NIRO) is operated by the Department for the Economy in Northern Ireland. Whilst responsibility for managing the Renewables Obligation scheme policy has been devolved, it has been agreed that benefits are maximised from parity across the UK.

^[1] Electricity costs as a percentage of a business's Gross Value Added (GVA) which is defined as earnings before interest, taxes, depreciation, amortisation and staff costs including employers' pension and national insurance contributions

- b. If so, what form could these alternatives take?
- c. What impact would divergent eligibility rules create in Scotland for Energy Intensive Industries, non-exempt businesses and consumers?

Proposed Exemption for EII from the Indirect Costs of the RO, CfD and FIT Exemption Schemes

5. BEIS has published a consultation document which seeks insights regarding the likelihood of competitive distortions caused by the eligibility mechanisms of the exemption schemes for the RO and CfD, as well as for the proposed small-scale Feed-in Tariffs (FIT).

6. BEIS' consultation also seeks views on the suitability of a number of policy options to address these distortions if they do exist.

7. Whilst Scotland has a devolved responsibility for the RO, the CfD and FIT schemes, also included in BEIS' consultation, are managed at a GB level. All policy options explored in the BEIS consultation consider the costs of widening eligibility for all relief schemes.

8. The BEIS consultation closes on 7th September 2018 and is available to view via the following link:

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

9. This document does not reproduce the text and proposals contained within the BEIS consultation document. However, stakeholders may wish to note the following points:

- Energy Intensive Industries are currently granted exemption from 85% of the costs attributable to the ROS if they are deemed to have an electricity intensity of 20% or greater within an eligible sector.³
- The BEIS consultation presents multiple options for widening eligibility by lowering the electricity intensity threshold to 17%, 15% or 10% as well as a considering different levels of relief for each of these thresholds
- A detailed Impact Assessment provides estimates of the costs and benefits of each option for widening eligibility and assumes that any option would be implemented across GB.⁴
- Options have been designed to balance the need for relief for industrial users who are burdened by high energy costs as well as protecting other consumers from rising prices.

³ Sectors that are eligible for such aid are listed in Annex 3 of the Commission's Energy and Environmental Aid Guidelines (EEAG): <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>

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

For Consideration/ Points to Note

10. Scotland has a higher proportion of households who use electricity as a sole energy source (11%) compared with England (8%) and Wales (5%)⁵. In addition, 26.5% of Scottish households were fuel poor in 2016. Therefore, Scottish consumers are likely to be impacted disproportionately to the rest of the UK by any widening of industrial eligibility for exemption from the RO Scotland.

11. However, any disproportionate impact should be considered alongside the work the Scottish Government is doing to improve energy efficiency and reduce impacts for all. As part of our long-term Fuel Poverty Strategy, we will introduce a Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill to set a new statutory fuel poverty target to help ensure we drive forward the provision of support to those who are most in need of help to heat their homes.

12. The [Energy Efficient Scotland](#) programme launched in May 2018 with its [Route map](#). This wide-reaching programme to invest in our existing buildings will improve energy performance. We will actively work with the Energy Efficiency Scotland Programme team to highlight possible risks to non-eligible businesses and households. Therefore it should ameliorate some of the increases in electricity bills for many households and ineligible businesses that would be expected as a result of the proposed widening of eligibility to include more industrial users.

13. The Scottish Government funded [SME Loan fund](#) offers Scottish SMEs support to invest in energy efficiency measures to save money and resources.

14. As laid out in our [Energy Strategy](#), we are working with Scottish industry to build on [existing programmes of support](#) and to reduce their costs by encouraging investment in energy efficiency. This can reduce operating costs and protect against energy price rises and these key priorities are laid out in [Scottish Manufacturing Action Plan](#).

15. Consideration should also be given to the fact that if the UK Government decides that eligibility for exemption should be widened, but Scotland does not, consumers in Scotland would still be subject to higher electricity costs in their bills because affected suppliers will look to spread any additional costs across their whole customer base, rather than just those in England and Wales. However, Scottish industrial bodies consuming the same proportions of electricity as their UK counterparts, would not receive any benefit.

Purpose of this Consultation Paper

16. The Scottish Government has a devolved responsibility for the operation of the ROS. To ensure that EII operating all or in part within Scotland are granted equal consideration as those across GB, it is our intention to follow the same approach as

⁵ <http://www.gov.scot/Publications/2017/12/5401/downloads>;
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658478/2015-16_EHS_Headline_Report.pdf

BEIS in investigating the impacts of the current exemption mechanism and the possible benefits of any changes to it.

17. The purpose of this consultation is to seek and consider compelling arguments and evidence to assist in deciding on whether changes to exemption eligibility are needed, and if so, what changes should be made.

Next steps

18. Following the closing date, all responses will be analysed and considered along with any other available evidence to help us reach a final position. Subject to stakeholders' views, state aid and the approval of the Scottish Parliament, if we decide to proceed with the proposals our aim would be to bring them into effect in Scotland at the same time as the rest of the UK. We will confirm the intended timetable in the response to this consultation.

Responding to this Consultation

19. We are inviting responses to this consultation by 14th September 2018.

20. Please respond to this consultation using the Scottish Government's consultation platform, Citizen Space. You view and respond to this consultation online at <https://consult.gov.scot/energy-and-climate-change-directorate/widening-the-exemption>. You can save and return to your responses while the consultation is still open. Please ensure that consultation responses are submitted before the closing date of 14th September 2018.

21. If you are unable to respond online, please complete the Respondent Information Form (see "Handling your Response" below) to:

Industrial Decarbonisation Team
4th Floor
5 Atlantic Quay
150 Broomielaw
GLASGOW
G2 8LU

Handling your response

22. If you respond using Citizen Space (<http://consult.scotland.gov.uk/>), you will be directed to the Respondent Information Form. Please indicate how you wish your response to be handled and, in particular, whether you are happy for your response to be published.

23. If you are unable to respond via Citizen Space, please complete and return the Respondent Information Form attached included in this document. If you ask for your response not to be published, we will regard it as confidential, and we will treat it accordingly.

24. All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Next steps in the process

25. Where respondents have given permission for their response to be made public, and after we have checked that they contain no potentially defamatory material, responses will be made available to the public at <http://consult.scotland.gov.uk>. If you use Citizen Space to respond, you will receive a copy of your response via email.

26. Following the closing date, all responses will be analysed and considered along with any other available evidence to help us. Responses will be published where we have been given permission to do so.

Comments and complaints

27. If you have any comments about how this consultation exercise has been conducted, please send them to:

Andy McCall
Industrial Decarbonisation Team
4th Floor
5 Atlantic Quay
150 Broomielaw
GLASGOW
G2 8LU

Telephone: 0131 446 777

Email: EII.ROS@gov.scot

Scottish Government consultation process

28. Consultation is an essential part of the policy-making process. It gives us the opportunity to consider your opinion and expertise on a proposed area of work.

29. You can find all our consultations online: <http://consult.scotland.gov.uk>. Each consultation details the issues under consideration, as well as a way for you to give us your views, either online, by email or by post.

30. Consultations may involve seeking views in a number of different ways, such as public meetings, focus groups, or other online methods such as Dialogue (<https://www.ideas.gov.scot>)

31. Responses will be analysed and used as part of the decision making process, along with a range of other available information and evidence. We will publish a report of this analysis for every consultation. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review
- inform the development of a particular policy
- help decisions to be made between alternative policy proposals
- be used to finalise legislation before it is implemented

32. While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body.



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