Renewable Obligation, Feed in Tariff and Contracts for Difference Exemption Briefing

An overview of the Renewable Obligation, Feed in Tariff and Contracts for Difference exemption scheme and how it affects participants.

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What is EII RO, FIT and CFD Exemption?

Energy Intensive Industries (EII's) can claim up to an 85% exemption from the costs of the Renewables Obligation (RO), the Feed in Tariff (FiT) and the Contacts for Difference (CFD) charges on their energy bills if they meet certain criteria regarding their level of energy intensiveness and their industry sector.

Why is it in place?

These charges are a key element of the Governments approach to decarbonising energy supply and incentivising generation of electricity from renewable sources, however, the Government recognises that in the short to medium term the resulting increase in retail electricity prices may have reduced the competitiveness of the UK's most electricity intensive businesses where they are operating in internationally competitive markets. Government therefore announced that it will provide an exemption for eligible EIIs from the indirect costs of the RO, FiT and CFD schemes, to ensure that they have long-term certainty and remain competitive.

Who is affected?

The exemption is available to Energy Intensive Industries meeting the criteria:

- The business must manufacture a product in the UK within an eligible sector as defined by the 4 digit NACE code. The 47 sectors are detailed in the guidance document.
- The business must pass the 20% electricity intensity test.

This is to ensure that the scheme targets those businesses most disadvantaged by the charges. In order to satisfy the business electricity intensity test, businesses will need to show that their implied mean electricity costs amount to 20% of their mean Gross Value Added (GVA).

There is a current consultation on widening the eligibility criteria by lowering the electricity intensity test threshold from 20% to 17%, 15% or 10%. For businesses meeting these lower thresholds the 85% aid intensity is also proposed to reduce proportionally.

Commencement dates

CFD exemption – November 2017

RO exemption – April 2018

FiT exemption – April 2019

How do I claim the exemption?

There are forms available to download from https://www.gov.uk/government/publications/renewables-obligation-and-small-scale-feed-in-tariffs-apply-for-compensation for the different types of exemption. The relevant one(s) should be completed and emailed to energyintensiveindustries@beis.gov.uk

Impact for EII's

- Lower electricity bills
- Improved accuracy vs the previous retrospective compensation scheme
- Real time support – Reduces the price paid for electricity as it is consumed, improving short term cash flow and potentially lowering production costs
- Greater certainty of support – No longer relying on payment from government department budgets which can fluctuate and have competing demands for support
- Improved investment certainty – lower production costs, improved competitiveness and potential positive impacts for employment and output

Impact for non EII's

- Increased electricity bills to supplement the revenue
- Based on current eligibility criteria and 2017 prices, the Government has outlined the average estimate of increases in energy bills per annum between 2019 and 2030:
    - £6 for household bills,
    - £460 for small business energy users,
    - £16,000 for medium sized energy users
    - £150,000 for non-exempt large sized energy users
- The Government also states that in the wider context of measures bills will still decrease overall.

General impacts

- Reduction in Government spending
- Supports the Government's long term economic plan.
- There may also a small impact on fuel poverty levels, levels of investment in energy efficiency measures and emissions levels

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