Renewables Obligation (Scotland) Energy Intensive Industries

Devolved aspects of the review of the UK scheme that provides relief to energy-intensive industries for a proportion of the indirect costs of funding renewable electricity policies, that includes the Renewables Obligation (Scotland)

Consultation Response Analysis

June 2023

Scottish Government
Riaghaltas na h-Alba

Consultation Response Analysis

Introduction

1. The Renewable Obligation (RO) places an annual obligation on electricity suppliers to present to Ofgem a specified number of Renewables Obligation Certificates (ROCs) per megawatt hour of electricity supplied to their customers, whilst also providing additional income for accredited generators. The RO and the Renewables Obligation Scotland (ROS) came into effect in 2002, followed by a similar scheme in Northern Ireland in 2005.
2. In 2017, the UK Government and Scottish Government delivered legislative changes to create a scheme that exempts Energy Intensive Industries (EII) from a proportion of the indirect cost of the RO and ROS.
3. Given the risk associated with carbon leakage and its mitigation, the Exemption Scheme reduces the indirect cost of funding renewable policies and their related levies and obligations for certain EIIs. The Exemption Scheme provides a discount of up to 85% known as the 'subsidy intensity' of the indirect costs of the RO and ROS; as well as the Contracts for Difference (CfD) and Feed-in Tariffs (FIT) renewable electricity schemes.
4. Scottish businesses must pass a sector test and a 20% electrical intensity threshold[1] to be eligible for EII exemption.

Consultation Summary

5. The Scottish Government published a consultation[2]in August 2022 that asked whether there was evidence for increasing the subsidy intensity for the exemption of EII to mitigate the increased costs of electricity due to renewable electricity policies and whether existing measures need to be amended from a portion of the indirect cost incurred by the Renewables Obligation (Scotland) ROS.
6. As part of this consultation, we asked Scottish stakeholders subject to the EII scheme for views on the intention to review the relief to EII for a proportion of the indirect cost of funding renewable electricity policies.
7. This consultation ran in parallel to a consultation held by the UK Government Department for Energy Security and Net Zero and Department for Business, Energy and Industry Strategy[3]. We sought views on the increase of the current percentage of the exemption level for the EII scheme.
8. The Scottish consultation opened on 22 August 2022 and ran for five weeks ending on 23 September 2022.

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

[2] Renewables Obligation Scotland – energy intensive industries

[3] Review of the energy intensive industries exemption scheme

Consultation Questions

No	Question	Responses
i	What benefits does the electricity relief exemption scheme provide to energy intensive industries including, how the scheme addresses the issue of carbon leakage?	2
ii	Do you agree with our proposal to replace the reference to UID with AIEA in the guidance?	2
iii	Do you agree that we, where relevant, use a five year rather than three-year baseline to reflect the impact of the Covid Pandemic to businesses? Please explain why	2
iv	Should we consider accepting applications from businesses with fewer than two financial quarters of financial data? Please explain why?	2
v	Is the 85% level of exemption sufficient for your business or sector? If not, please provide supporting evidence to demonstrate why not.	2
vi	If we were to consider increasing the subsidy intensity level, what level would be appropriate? Please provide supporting evidence for your answer.	2
vii	Do you agree that supporting industry to decarbonise through existing decarbonisation and net zero strategies is the appropriate approach for Energy Intensive Industry? Please add further information to support your response.	2
viii	Do you agree with our proposal to adjust the 2023/24 renewable obligation level partway through the obligation year (if proposed changes are made as a result of this consultation)? If not, please explain why and, if possible, suggest alternative approaches.	1
ix	Do you consider that a minimum of three months' notice between the revised obligation level being published and implemented, is reasonable (if proposed changes are made to the Exemption Scheme as a result of this consultation)? If not, please explain why and, if possible, suggest alternative approaches.	1

Summary of Consultation Responses

9. We received two responses from energy-intensive companies, and one respondent permitted their responses to be made public unanimously. The key points raised by respondents were that:

- The current EII scheme provides essential relief, especially in the context of currently very high energy prices. However, the current energy market impacts international competitiveness when trading products, and UK firms still pay more for electricity than EU competitors.

- Businesses are finding the 85% exemption level inadequate due to the current energy market conditions and the disparity in electricity prices between the UK and the EU. It is recommended to consider a subsidy intensity level of 100%.
- In order to enhance industrial decarbonisation, chemical sector emissions could be reduced by fuel switching to electricity. However, the UK needs lower and more competitive electricity prices. In light of this, the respondents would prefer an increase in subsidy intensity.

10. In May 2023, the UK Government published their response[4] to their consultation as part of the British Industry Supercharger (BIS) for EIIs, along with other measures.

Overall Finding

The responses to the consultation may have been few, but they were all unanimous agreement regarding the need to raise the existing threshold for electricity intensity.

Conclusion and Next Steps

The Scottish Government will continue collaborating with the UK Government as the lead in managing and reviewing the EII exemption Scheme. The current subsidy level for the scheme in 2023 will remain the same, and the Scottish Government will assist the UK Government in increasing the subsidy level to 100% by 2024.

The Scottish Government would like to thank all respondents for taking the time to reply to this consultation.

Scottish Government
Energy Industries Division
Industrial Decarbonisation Team
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[4] BIS: Capacity Market consultation and EIIs government response

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Any enquiries regarding this publication should be sent to us at

The Scottish Government
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EH1 3DG

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