

Changes to Capacity Market & Energy Intensive Industries Exemption Legislation



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The energy market is changing and the Government is proposing some reforms that could potentially affect all businesses

Capacity Market Changes

The Capacity Market (CM) is set up to make sure there is enough reliable energy available to meet the country's demands. To encourage investment in new generation projects and technologies, or to help existing means of generation to stay open, capacity is procured up to four years before it is needed through a competitive auction.

To address the emerging risks to energy security, following the closure of a number of coal plants, the Department of Energy and Climate Change (DECC) set out a proposal to hold an additional auction this coming winter (January 2017) for delivery one year ahead, in 2017/18. These auctions are expected to cost over £1billion which will be recovered through CM charges during the 2017/18 compliance year.

CM changes only apply to consumption during winter peak periods (Monday to Friday, 16:00-19:00, November to February), so the impact will be dependent on your consumption profile. For a 1GWh business with an average usage of 5% in winter peak period, the additional auction will roughly increase CM charges by £7,000 during the 2017/18 compliance year.

On 6 May 2016, DECC announced that following consultation they have decided to proceed with the proposed changes and that draft regulation will be laid before parliament shortly. As a result of this decision, the additional costs expected in 2017/18 have been factored into our forecasts and will be included in all the quoted rates for fixed CM charge contracts. If you'd prefer to pay the actual cost please discuss with your account manager about having CM charges as a pass through cost.

Changes for Energy Intensive Industries (EII)

The Renewable Obligation (RO) and Feed-in Tariff (FiT) were introduced to promote the use of renewable energy sources. The Government has issued a consultation on a proposal to reduce the financial impact of these policies to Energy Intensive Industries (EIIs).

EIIs can already claim compensation from the Department for Business, Innovation and Skills (BIS) for these costs. The proposed package will include exemption for some of these costs. The Government believes this will:

- help to give EIIs greater long term certainty, and
- support their ability to compete on an international basis by reducing some of the price they pay for their energy.

The proposed relief package requires State Aid Approval and, if approved, could see the exemption start as of April 2017.

Who is eligible for the exemption?

The Government have highlighted a list of currently eligible industries, which can be found in Annex B of this [Impact Assessment document](#). The scheme targets the most electricity-intensive businesses, i.e. those put at a significant competitive disadvantage from renewable energy support cost.

How does it work at the moment?

The Government has already introduced a scheme to compensate eligible energy intensive customers for the impact of the RO and FiT schemes. Eligible businesses must apply for the scheme directly with the Government and are compensated for up to 85% of the cost of RO and FiT. If State Aid is approved, this would change to direct exemption from April 2017.

What could these changes mean to non-EIIs?

The Government has confirmed that the overall costs for the RO and FiT schemes will not change. This means the costs that would have been covered by EIIs will be passed on to customers who are not eligible for the EII exemption. So, if the proposal becomes legislation, these customers may see an increase in RO and FiT charges of about 0.09p/kWh and 0.035p/kWh respectively, from April 2017.

How could these changes affect me?

The potential increase in RO and FiT costs for non EII businesses are not included in our current quoted rates as the proposal is still in consultation and will require State Aid approval. If the proposal is approved by Parliament additional costs may need to be passed through to customers.

Keeping you informed

We'll keep you informed about these changes and will update you once we have more clarity around approval of the EII proposed changes.

