Consultation Response:
Electricity Intensive Industries - Relief from the indirect cost of renewables

23rd October 2014

Introduction
Energy intensive businesses that are not listed under the European Commission’s EEAG Annex 3 or Annex 5 are currently excluded from claiming relief from the indirect costs of renewable generation. Higher unilateral costs for energy can make such companies uncompetitive when compared to their overseas counterparts, can lead to off-shoring of business function and discourage inward investment.

While the CCA for data centres helps to relieve operators from unilateral taxes like CRC and CCL, these only represent a minor part of the extra cost that our national carbon reduction commitments will place on electricity. The Green Economy Team at BIS has been developing additional tools to help energy intensive businesses remain competitive. We have been asked to comment on their proposals in relation to their impact on the UK data centre sector.

The current proposals relate to compensating business for the incremental costs of the Contracts for Difference (CfD), Renewables Obligation (RO) and small scale Feed-in-Tariffs (FITs).

Consultation questions: Summary

1. Do you agree with the approach to eligibility?
   ○ The approach appears to set a much higher bar for sectors not listed on the relevant annexes than for sectors that are listed.
   ○ The electricity price required for the calculations is significantly lower than that paid by our members, even those with the biggest purchasing portfolios who can procure at discount. We would prefer to see a more realistic price for electricity of at least £80 per MWh. We have submitted separate, anonymised, data indicating actual prices paid for power during the relevant time period by operators.

2. Are there any products which have been ruled out by this test which are electricity or trade intensive?
   ○ Yes, some data centre services, for instance some cloud and managed hosting services. These are marginally less energy intensive than pure colocation services (although they still meet other energy intensity thresholds such as that set for the CCA) but they are more location agnostic and they represent the biggest growth opportunities for the sector. As the trade intensity route is not open to the sector, these operators would be excluded by the current approach.

3. Do you agree with the business-level test approach?
   ○ For data centres, we are obliged to apply the business level test to the sector. This sets a very high threshold for energy intensity (mentioned above) and no option to apply the trade intensity approach.
We have applied the business level test to the sector and have submitted data under NDA separately. In summary, the sector is split across the eligibility threshold depending on business model (colocation, managed hosting or enterprise) and in several cases those companies who have implemented energy efficiency measures are just dropping below the threshold and essentially being penalised, in contrast to those who have not, which seems to be a rather perverse outcome.

4. Do you agree with the approach to aid intensity?
   o Yes

5. How best can we ensure that eligible companies engage with, and take full advantage of, the expertise and commercial finance from the Green Investment Bank?
   o We think that addressing the shortcomings of the GIB should be the topic of a separate discussion.

Issues of principle

1. In principle we object to the obligation to follow multiple approaches in order to demonstrate energy intensity. Members have expressed real frustration that, having provided clear evidence of their energy intensity to one government department for the CCA (DECC) they now have to jump through a completely different set of hoops to demonstrate the same thing to another department (BIS). The fact that this data is extremely sensitive is a further hindrance.

2. Another systemic problem is the juxtaposition of very inflexible, slow moving, policy tools with the rapid evolution of technology, to the extent that whole new sectors have been created in less than a decade. While we do not expect policy development to keep pace with technology, a listing that “excludes by omission” and then places a much higher bar for new entrants than existing ones creates inevitable hostages to fortune. It is a perfect example of policy lagging behind, and failing to accommodate, technological development. It’s about as logical as Dante’s Inferno, where all the great classical figures are condemned to purgatory on the basis of their unbelief because God hadn’t been invented when they were around.

3. We are extremely concerned by the cumulative impact on sectors, sub-sectors or individual businesses that for one reason or another are ineligible for compensation schemes yet are equally disadvantaged in the global market.

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Consultation URL
The consultation and response form can be downloaded from the gov.uk website at: