

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



Making a positive difference
for energy consumers

Email: REDevelopment@ofgem.gov.uk

Date: 23 September 2022

Dear Sir/Madam,

Ofgem's response to [Renewables Obligation \(Scotland\) - energy intensive industries consultation](#).

Ofgem is the GB energy regulator and a non-ministerial government department. The administration of government schemes is one of the enduring duties that we undertake, in parallel with the regulation of the gas and electricity markets.

Ofgem welcomes the opportunity to respond to the Renewables Obligation (Scotland) - energy intensive industries (EIs) consultation. Ofgem understands that suggested policy changes and associated timelines might have to be adjusted in line with [Prime Minister Liz Truss's announcement on 8th September 2022](#). We have provided responses to the original proposals that relate to our administration of the Renewables Obligation (Scotland) scheme and Ofgem's role as the regulator more widely.

We recognise that the UK Government and Scottish Government have powers to undertake their own respective assessments of any possible policy changes and we will work with both governments to ensure administrative efficiency in relation to any future policy changes.

Should you wish to discuss any points raised in this letter please get in touch with us by emailing REDevelopment@ofgem.gov.uk.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Laura Nell".

Laura Nell
Deputy Director
Policy & Scheme Development

Annex 1 - responses to consultation questions from Ofgem

- 1. What benefits does the electricity relief exemption scheme provide to energy intensive industries including, how the scheme addresses the issue of carbon leakage for you?**

No comment.

- 2. Do you agree with our proposal to replace the reference to UID with AIEA in the guidance?**

Ofgem is not involved in reviews of requirements for potential applicants for the EII scheme. We therefore have no comments on this question.

- 3. 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.**

Ofgem has no oversight of the processes. We trust that the Government will benefit from inputs from stakeholders across the section.

- 4. Should we consider accepting applications from businesses with fewer than two financial quarters of financial data? Please explain why?**

As above – no comments.

- 5. Is the 85% level of exemption sufficient to for your business or sector? If not, please provide supporting evidence to demonstrate why not.**

We trust that stakeholders will provide the Government with input.

- 6. If we were to consider increasing the subsidy intensity level, what level would be appropriate? Please provide supporting evidence for your answer.**

The energy market is facing a huge challenge due to the unprecedented increase in global gas prices, incomparable with anything we have seen since the RO (Scotland) scheme was launched in early 2000s. Nevertheless, the RO (Scotland) scheme continues to play an important role in supporting the UK's transition towards the Net Zero future.

We recognise that the Government's intention to reduce energy bills for the EII is driven by the need for increasing competitiveness of the UK EII companies in international markets. In setting the subsidy level, it will be important to consider the impacts of this policy on all customer groups and how it will interact with other recently announced interventions to protect customers from high wholesale prices.

7. Do you agree that supporting industry to decarbonise through existing decarbonisation and net zero strategies is the appropriate approach for EIIs? Please add further information to support your response.

Ofgem is currently undertaking a separate review of suppliers' financial resilience ahead of next compliance periods. In our [policy consultation](#) published in June 2022 we sought stakeholders' views on proposed changes to the standard licence conditions (SLCs) of domestic electricity supply licences to protect money collected to meet RO payments. If we decide to proceed with the licence modifications, they may offer additional protection to suppliers (and ultimately customers) from the mutualisation costs the suppliers will incur in the event of their competitors' insolvency or payment default. While this proposal should lead to a lower cost of supplier failure for all electricity users, there will of course be implementation costs associated with this policy in the near term, should we decide to proceed. Given that we are still considering stakeholders' feedback, we would welcome further conversations with the Government about the impacts of this policy in the context of the recent announcements.

8. Do you agree with our proposal to adjust the 2023/24 renewables 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.

Ofgem recognises that the Scottish Government is analysing feedback to their [consultation on amendments to the Renewables Obligation \(Scotland\)](#) issued in November 2021. Working under the assumption that the RO (Scotland) threshold is to be aligned to the RO threshold as per this proposal, Ofgem might be obliged by the legislation to calculate and publish the RO (Scotland) mutualisation threshold before the start of an obligation period. In an event of the Scottish Government adopting a calculation methodology where the RO (Scotland) mutualisation threshold is linked to the obligation level, Ofgem would welcome a one-off deadline extension for our publication of the mutualisation threshold for the 2023/24 compliance period. To grant this extension

the Government may want to consider exercising powers they are given by the Electricity Act 1989 (as amended) and amending the RO (Scotland) Order 2009 (as amended).

9. 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.

Whilst the proposal to bring changes in for the 2023/24 obligation year seems reasonable, it is likely to impact our administration. Additional resources to amend our internal and external guidance, and to engage with stakeholders might be needed regardless of when the policy change come into force. We will also require EMRS, who provides us with the EII data on behalf of the LCCC, to clearly indicate the data set for which the new exemption level applies.

One of our key priorities as the administrator of the RO (Scotland) scheme is to ensure that it is run efficiently and cost effectively. Given administrative benefits of alignment between the RO (Scotland) and EII schemes' timelines, our preferred approach would be for these changes to come into force at the start of a scheme year (e.g. from 1st April 2024) rather than after quarter one (Q1) of the 2023/24 scheme year. Should the current exemption level change after Q1 of the 2023/24 scheme year, it will add to the complexity and therefore the costs of our internal processes. To illustrate how this might impact our delivery, we could be required to administer different relief level in Q1 of the 2023/24 year and then a separate, potentially higher, relief level for suppliers with an obligation against the RO (Scotland) scheme in the remaining quarters of that scheme year. Further, if this proposal is to be implemented from the 1st of July 2023, changes to the Register, the online system we use to administer the RO (Scotland) scheme, will be required at least once for the 2023/24 period and then again ahead of the 2024/25 compliance year. Consequently, these operational and IT changes are going to increase our administration costs in the 2023/24 and 2024/25 financial years.

Overall, the 3 months' notice period should be sufficient for us to update the Register and provide stakeholders with necessary guidance. However, we would welcome an information on expected outcomes of this consultation and clarity on a new relief level sooner than 3 months before the start of the 2023/24 compliance year.