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Title: Widening eligibility for energy intensive industries (EIs) in the schemes providing exemptions from the indirect costs of renewable energy policies IA No: BEIS013(F)-19-ESNM RPC Reference No: N/A Lead department or agency: BEIS Other departments or agencies: N/A	Impact Assessment (IA)			
	Date: 17/05/2019			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
	Contact for enquiries: David Taylor, David.Taylor@beis.gov.uk, Tel: 0207 215 0467			
Summary: Intervention and Options			RPC Opinion: N/A	

Cost of Preferred (or more likely) Option (in 2016 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
£0	£60mn	-£7mn	Qualifying provision

What is the problem under consideration? Why is government intervention necessary?

The UK provides eligible electricity intensive businesses with exemptions for the indirect costs of the Renewables Obligation (RO), Small Scale Feed in Tariff (FIT) and the Contract-for-Difference (CFD) schemes to reduce the competitive disadvantage against international competitors that EIs in the UK face. The flour milling sector, which is electricity intensive, is currently ineligible and therefore exposed to this competitive disadvantage. This IA introduces the following amendments to the exemption schemes: 1) inclusion of the flour milling sector 2) improving the operation of the scheme by reducing the time taken to amend the exemption after a business makes a change to its metering arrangement.

What are the policy objectives and the intended effects?

High retail electricity prices in the UK risks putting electricity intensive businesses at a significant competitive disadvantage against international competitors. The UK government recognises that renewable energy support schemes add to the cost of electricity for end users. Hence, the government exempts eligible EIs from the indirect costs of renewable energy support schemes by up to 85% of the cost of the scheme, in line with the European Commission’s guidelines.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Given the specific nature of the problems considered the only policy options considered are to:

- add the flour milling sector to the list of eligible sectors that can currently receive the exemptions— businesses in this sector face higher electricity costs than their international competitors, putting them at a competitive disadvantage. They are judged to meet the criteria to be eligible for the exemption schemes in accordance with State Aid guidelines
- Introduce administrative changes that reduce the time taken to amend the exemptions after a business makes a change to its metering arrangement – these create efficiency improvements in the scheme.

Will the policy be reviewed? This policy will be reviewed alongside the EI exemption schemes. **If applicable, set review date:** N/A

Does implementation go beyond minimum EU requirements?	No			
Is this measure likely to impact on trade and investment?	Yes			
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Nadhim Zahawi Date: 5th Sept 2019

Summary: Analysis & Evidence

Policy Option 1

Description: Introduce the flour milling sector to the EII exemption schemes and improve the operation of the schemes

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £0
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate			£16.4mn		£139mn
Description and scale of key monetised costs by 'main affected groups'					
Consumers who are not eligible for the exemption schemes see an increase in their electricity bills as they pay more of the RO, FIT and CFD policy costs. The average estimated annual bill increase is: 20p for a household, £10 for a small business energy user, £600 for a medium business energy user, and £5,000 for an ineligible business operating in an energy intensive industry. Currently eligible businesses also see, on average, a rise in their annual bills of £800 per business. The illustrative estimate of the annual impact from the additional exempted electricity from improving the operation of the scheme is £800,000, however the impact to bills is negligible. These are all transfers, so the Net Present Value is nil.					
Other key non-monetised costs by 'main affected groups'					
The UK government, electricity suppliers, Ofgem and Elexon could face additional administrative burdens as the number of businesses in the schemes expands however this is likely to be very small due to the limited number of businesses in the flour milling sector. Further, higher electricity costs may decrease households' disposable incomes, this would have a disproportionately large effect on poorer income groups, but analysis suggests this will not increase the number we consider 'fuel poor'.					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Benefit (Present Value)
Low	Optional		Optional		Optional
High	Optional		Optional		Optional
Best Estimate			£16.4mn		£139mn
Description and scale of key monetised benefits by 'main affected groups'					
Newly eligible businesses from the flour milling sector will face lower electricity prices by up to 85% of the RO, FIT and CFD policy costs. There will be a fall in their electricity bills by an estimated average of £2.8m per business per year. This is an estimated average for EIs as a whole, not the flour milling sector in particular. We anticipate that the bill saving will be lower for the milling sector. These are all transfers, so the Net Present Value is nil.					
Other key non-monetised benefits by 'main affected groups'					
There may be greater investment flows in the UK since newly eligible businesses face a fall in their production costs. This may help to retain employment in the UK. There may be a reduction in supply chain costs for businesses using products manufactured by the flour milling sector. This could increase employment and UK investment, resulting in a rise in the rate of growth of UK GDP.					
Key assumptions/sensitivities/risks					Discount rate (%)
The key assumptions are: a). all businesses in the milling sector apply for the schemes; b). all businesses in the milling sector are eligible for the exemptions and use no non-grid electricity.					3.5%

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 9	Benefits: 16	Net: -7	-34.6

Evidence Base

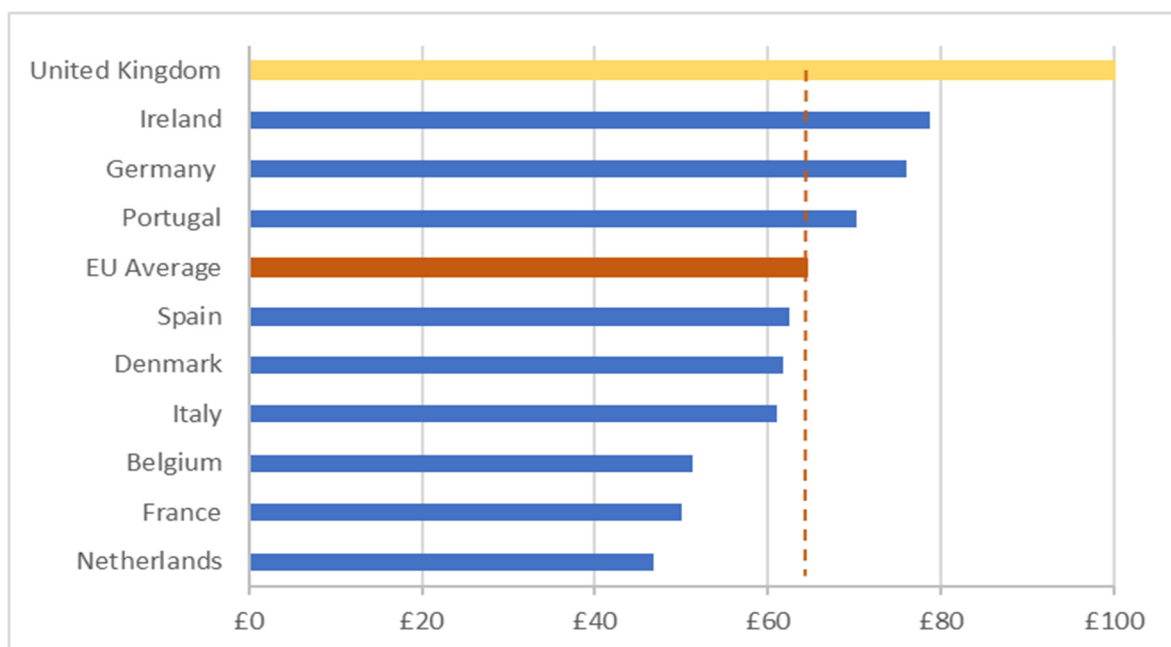
Background

1. The UK government is committed to meeting legally binding targets¹ to reduce greenhouse gas emissions by at least 80% by 2050 against 1990 levels. At the same time, the UK government is committed to ensuring that the UK economy remains both competitive and innovative.
2. Policies designed to incentivise generation of electricity from renewable and low carbon sources are a key element of the government's approach. Specifically, the government has put in place the Contract-for-Difference (CFD), Renewables Obligation (RO) and the Small-Scale Feed in Tariff (FIT) schemes to support financing deployment of renewable electricity. The RO and FIT schemes closed in 2017 and 2019, respectively, subject to certain grace periods. The costs of these schemes are paid for through consumers' electricity bills. For more details on these policies, see Annex 1.

Rationale for Intervention

3. The UK government recognises that the RO, FIT and CFD schemes contribute to higher retail electricity prices relative to other countries. Higher retail electricity prices in the UK risks putting electricity intensive businesses at a significant competitive disadvantage. As Chart 1 shows, UK extra-large industrial electricity prices are the highest in the EU15, 77% higher than the EU15 median. Electricity-Intensive Industries (EII) are hardest hit by these schemes, particularly those operating in internationally competitive markets since costs are unable to be passed onto their customers.

Chart 1: Retail electricity prices for extra-large industrial users in the EU, 2018 (£/MWh)²



4. In recognition of this, the government exempts EIIs who risk being put at a significant competitive disadvantage from up to 85% of the indirect costs of the RO, FIT and CFD

¹ See Climate Change Agreement 2008: (<https://www.legislation.gov.uk/ukpga/2008/27/contents>)

² Data sourced from Eurostat

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schemes, in line with the European Commission's guidelines³.

6. The eligibility criteria for the RO, FIT and CFD exemption schemes consist of two steps:
 - a. The applicant must manufacture a product in the UK with an eligible NACE code⁴. These are listed in the schemes' guidance documents⁵.
 - b. The applicant must also satisfy a business level test. Businesses will need to show that their implied mean electricity costs amount to 20% or more of their mean Gross Value Added (GVA)⁶.
7. Current eligibility criteria may result in competitive distortions. By creating a threshold for classifying businesses as eligible and ineligible there could be a competitive advantage as businesses eligible for the scheme face a lower cost per unit of electricity relative to ineligible businesses. This is a particular concern for businesses operating in the same sector, where some are just below and above the threshold.
8. Electricity costs are an important factor in an electricity intensive business' operating costs and hence can play a large role in a business' profitability. For example, electricity costs were 32% of overall expenditure in the iron and steel sector and over 100% of GVA⁷ in 2016. The exemption schemes reduce the impact of RO, FIT and CFD policies on these businesses' electricity bills by up to 85%. Therefore, those businesses receiving the exemptions can face lower operating costs compared to their ineligible competitors, putting them at a competitive advantage.
9. In June 2018, the Government consulted on whether to lower the business level test threshold, helping to reduce these competitive distortions. The consultation asked for evidence of these distortions. Following the analysis of responses, the Government considered there was insufficient evidence of the existence of intra sectoral competitive distortions, which did not justify government intervention to lower the eligibility threshold. Further details of the evidence can be found in the accompanying Government Response.
10. The consultation also invited currently ineligible sectors to supply evidence if they believed they should be eligible for the exemption schemes. The flour milling sector supplied sufficient evidence and the Government decided to include this sector in the schemes. The consultation also proposed some small administration changes to the schemes to improve their operation which are being taken forward. The remainder of this Impact Assessment (IA) analyses the effects of these changes.

Description of policy options considered

³ The European Commission's guidelines on State Aid for Environmental Protection and Energy 2014-2020: (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>)

⁴ Eligible sectors and sub-sectors are determined in line with the framework provided by the European Commission. Eligible sectors and subsectors aim to focus aid to businesses that are most trade-intensive and at the most significant risk of carbon leakage. Further information can be found in the guidance documents for each scheme.

⁵ Guidance documents for the exemption schemes can be found here: <https://www.gov.uk/government/consultations/energy-intensive-industries-exemption-from-indirect-costs-of-the-contracts-for-difference-scheme>

⁶ GVA is defined as earnings before interest, taxes, depreciation and amortisation and staff costs including employers' pension and national insurance contributions.

⁷ Excludes within sector purchases. Analysis based on: ONS Input-Output Supply and Use Tables; and ONS Annual Business Survey. Energy costs defined as the intermediate consumption from Manufacture of Basic Iron and Steel (24.1-3) of; Coal and lignite (05); Crude Petroleum and Natural Gas (06) + Metal Ores (07); Coke and refined petroleum products (19); Electricity, transmission and distribution (35.1); and Gas; distribution of gaseous fuels through mains; steam and air conditioning supply (35.2-.3).

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Introducing the flour milling sector as an eligible sector in the exemption schemes

11. To ensure that support in the UK is targeted at those businesses that are most at risk, eligibility is limited to those sectors which are electricity-intensive and subject to international competitive pressures. To gain admission to the exemption schemes, eligible sectors must have an international trade intensity⁸ of at least 4% and an electricity-intensity⁹ of at least 7% using UK data.
12. During the consultation, ineligible sectors were invited to share the following information on their sectors, for the most recent three years for which data is available, to support their eligibility:
 - Businesses in the sector
 - Electricity consumption
 - GVA
 - Turnover
 - The value of imports and exports
13. The flour milling sector submitted the above information to enable government to calculate the sector's electricity and international trade intensities. The information was verified in the following way:
 - It included data from all UK flour milling businesses, checked using the Fame company database
 - Each business' reported GVA and turnover matched their company accounts
 - Electricity costs as a percentage of turnover was similar for each business¹⁰
 - The value of imports and exports matched publicly available HMRC trade statistics for this sector.
14. The sector was found to meet the necessary thresholds and therefore subsequently deemed to be eligible for the EII exemption schemes.

Improving the operation of the exemption schemes

15. Businesses usually receive an exemption certificate starting on 1st April which, in the majority of cases, is valid for the financial year. The proportion of a business' electricity bill that is eligible for exemption is based on the electricity used by the business for eligible production in the previous calendar year. The exemption proportion is usually 85% but will be lower if the eligible business shares electricity with another business and/or if the business uses some electricity to produce ineligible products. Currently, if one of these factors changes, then a business' exemption proportion will not change until their current certificate expires. The factors that could lead to a company's exemption proportion not reflecting the current situation are:
 - Adding an additional meter – eligible businesses who start using a new electricity meter may have to wait up to a year to receive an exemption for that meter. For example, if they start using a new meter on 1st January 2018, an exemption certificate cannot be awarded until 1st January 2019 as the meter was not in use during the previous calendar year.
 - Changing the use of a meter - where a business has started (or stopped)

⁸ Trade intensity is calculated as $\frac{\text{value of imports} + \text{value of exports}}{\text{value of imports} + \text{turnover}}$

⁹ Electricity intensity is calculated as $\frac{\text{electricity costs}}{\text{GVA}}$

¹⁰ A business' electricity costs are not publicly available so could not be directly verified. As these businesses operate in the same sector, it is expected that their electricity costs as a percentage of turnover should be similar.

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sharing electricity with another business or has started (or stopped) using electricity to make an ineligible product, the exemption proportion on the certificate may not reflect the current situation as it can only be updated once the current certificate expires. This results in businesses being under or over-exempted.

16. Following the consultation, the government has decided to amend the legislation whereby if one of the above changes occurs, a company's exemption proportion on their current certificate can be changed three months after the change occurs.

Description of costs and benefits

Introducing the flour milling sector as an eligible sector in the exemption schemes

17. Newly eligible businesses would benefit from being exempt from up to 85% of the indirect costs of the RO, FIT and CFD schemes. This will lower their electricity costs, helping them to become more profitable and increase their international competitiveness.
18. The extension of the exemption schemes will see an increase in currently eligible businesses' electricity bills as the costs from the RO, FIT and CFD schemes are spread over a smaller amount of non-exempt electricity. As currently eligible businesses already receive an exemption from up to 85% of the costs of these schemes, this increase will not be as acute compared to other users.
19. Households and ineligible businesses will see an increase in their electricity bills as the costs from the RO, FIT and CFD schemes are spread over a smaller amount of non-exempt electricity. This could be particularly concerning for those considered to be 'fuel poor' in the UK but we estimate that, due to the small size of the bill increase, there will be no statistically significant impact on the fuel poor.

Improving the operation of the exemption schemes

20. Prior to the implementation of the changes outlined in paragraph 15, some eligible businesses may currently receive a smaller exemption than their current meter use would indicate until their current certificate expires, up to 12 months. Under the proposals, these businesses will only face this situation for 3 months and can benefit from an increase in their exemption after this. The scenarios under which a recipient will benefit from an increase in their exemption proportion are:
 - Scenario 1: Adding an additional meter – any electricity from additional meter would now be exempted.
 - Scenario 2: Stopping sharing electricity with another business – a business' meter exemption proportion would be increased as the meter would only be used by the eligible business.
 - Scenario 3: Stopping making an ineligible product - a business' meter exemption proportion would be increased as the meter would only be used for eligible products.
21. Conversely, some recipients may currently receive a larger exemption than their current meter use would indicate, for up to 12 months. Following the introduction of this administrative change, these businesses' exemption proportion will be updated after 3 months of the change in metering arrangement and will witness a fall in their exemption after this. The scenarios under which a recipient will lose out from a decrease in their exemption proportion are:

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- Scenario 4: Starting to share electricity with another business - a business' meter exemption proportion would be decreased as the meter would be used by another business.
- Scenario 5: Starting to make an ineligible product - a business' meter exemption proportion would be decreased as the meter would be used to produce ineligible products.

Monetisation of Costs and Benefits

Introducing the flour milling sector as an eligible sector in the exemption schemes

22. To calculate the impact of introducing the milling sector, we took the average electricity consumption of the milling sector between 2014 to 2016, using commercially sensitive data provided by the National Association of British and Irish Flour Millers (nabim), the relevant Trade Association, in their consultation response. We assumed 85% of this was exempted. The additional costs were redistributed over the remaining electricity billpayers.
23. The figures in Table 1 represent an estimate of the maximum bill reduction that newly eligible firms might receive, and which would be passed on to other consumers, the actual number may be less than this, but we have chosen to represent the maximum. The estimates show that newly eligible businesses will face a fall in their electricity bills by an estimated average of £2.8m per business (approximately 25% of their bill). Households, non-eligible and currently eligible consumers see an increase in their electricity bills as the indirect costs of the RO, FIT and CFD schemes are spread over a smaller amount of electricity consumption. As currently eligible consumers already receive an exemption of up to 85% of these costs, they see a smaller impact, relative to their electricity consumption, compared to other users.

Table 1: Estimates of the maximum average annual impact of introducing the additional sector 2020 – 2030 (2017 prices)

	Bill Impact	Price impact (£/MWh)	Percentage of bill
Households	20p	<10p	0.03%
Small business energy users	£10	<10p	0.04%
Medium business energy users	£600	<10p	0.04%
Currently eligible EIs	£800	<10p	0.01%
Ineligible EIs	£5,000	<10p	0.05%
Newly eligible EIs	-£2,800,000	-£30	-25%

24. The above analysis assumes the following:

- all businesses in the milling sector apply for the schemes and are deemed eligible; this assumption represents the most extreme case as some businesses within the milling sector may not pass the business level eligibility test.
- all businesses in the milling sector use only grid electricity; this assumption represents the most extreme case as some businesses within the milling sector may use electricity from non-grid sources which is not subject to RO, FIT and CFD costs.
- electricity consumption is stable over the time period considered; we have used this assumption to simplify the analysis. Therefore, if EI energy use in future years were to

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be significantly lower than forecast, the impacts would be an overestimate and vice versa.

Improving the operation of the exemption schemes

25. We are not able to say with certainty what the impact of the operational improvements would be as it is highly dependent on individual business circumstances. We have sought to estimate the likely magnitude of the changes by using existing data on the incidence of such changes. This gives our best estimate of the likely impact of these changes as a whole.

26. In calculating the impact of these changes, we analysed each scenario individually using data on currently eligible businesses from the exemption schemes. All calculations in the below scenarios are representative of the average EII in the schemes.

27. Scenario 1: A business starts using a new meter

- Step 1: We identified all the cases where a business in the schemes started using a new meter between 2016 and 2018.
- Step 2: We calculated the average monthly electricity from these new meters.
- Step 3: Using this average electricity estimate, we calculated how much electricity would have been exempted from a new meter had the business been able to receive an exemption after three months of starting using the new meter, rather than waiting to the beginning of the next calendar year (the current situation).

28. Scenario 2: A business stops sharing electricity with another business

- Step 1: We selected all businesses in the schemes that currently share electricity with other businesses. We then calculated their average monthly exempted electricity consumption, assuming they receive an 85% exemption.
- Step 2: These businesses' exemption proportion on their certificate accounts for the share of electricity used by other businesses so this is lower than 85%. It is calculated so that the eligible business will receive an 85% exemption for the electricity it uses whereas ineligible business will receive 0% exemption. We calculated the average exemption proportion on these businesses' certificate.
- Step 3: We assumed a business stops sharing a meter. Under the current legislation, their exemption proportion cannot reflect this until their current certificate expires. Their exemption proportion is lower than 85% meaning it is less than their current situation. Using the average exemption proportion from Step 2, we calculated the average monthly exempted electricity under this situation.
- Step 4: We took the result from Step 3 (the current exempted electricity) and subtracted the result from Step 1 (the exempted electricity after the change analysed here) to calculate the average monthly difference.
- Step 5: We calculated the additional electricity exempted had the business' exemption proportion been revised three months after stopping sharing electricity with another business, rather than waiting until the current certificate expired.

29. Scenario 3: A business stops making all ineligible products

- Step 1: We selected all businesses in the schemes that currently make an ineligible product. We then calculated their average monthly exempted electricity consumption, assuming they receive an 85% exemption for the electricity used for eligible production.
- Step 2: These businesses' exemption proportion on their certificate accounts for the share of electricity used for ineligible products so this is lower than 85%. It is

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weighted so that the eligible production will receive an 85% exemption whereas ineligible production will receive 0% exemption. We calculated the average exemption proportion on these businesses' certificate.

- Step 3: We assumed a business stops making all ineligible products. Under the current legislation, their exemption proportion cannot reflect this until their current certificate expires. Their exemption proportion is lower than 85% meaning it is less than their current situation. Using the average exemption proportion from Step 2, we calculated the average monthly exempted electricity under this situation.
- Step 4: We took the result from Step 3 (the current exempted electricity) and subtracted the result from Step 1 (the exempted electricity after the change analysed here) to calculate the average monthly difference.
- Step 5: We calculated the additional electricity exempted had the business' exemption proportion been revised three months after stopping making the ineligible products, rather than waiting until the current certificate expires.

30. Scenario 4: An eligible business starts sharing electricity with another business

- Step 1: We assume that eligible businesses receive an 85% exemption. If the eligible business starts sharing electricity with an ineligible business, under the current legislation, the exemption proportion will not be updated until the existing certificate expires.
- Step 2: We selected all eligible businesses which share electricity with another business. We calculated the proportion of electricity used by the ineligible business.
- Step 3: We selected all eligible businesses which do not share electricity with another business and calculated their average monthly exempted electricity consumption.
- Step 4: We applied the result from Step 2 to Step 3 to estimate the average monthly electricity from ineligible businesses that would be included in the exemption proportion under the current legislation.
- Step 5: Using the result from Step 4, we calculated the additional electricity that would be included in the exemption proportion had the business' exemption proportion been revised three months after starting to share the meter, rather than waiting until the current certificate expires.

31. Scenario 5: A business starts making ineligible products

- Step 1: We assume that businesses receive an 85% exemption for their eligible production. If the business starts making an ineligible product, under the current legislation, the exemption proportion will not be updated until the existing certificate expires.
- Step 2: We selected all businesses which make an ineligible product. We calculated the proportion of electricity used in manufacturing the ineligible product.
- Step 3: We selected all businesses which do not make an ineligible product and calculated their average monthly exempted electricity consumption.
- Step 4: We applied the result from Step 2 to Step 3 to estimate the average monthly electricity from ineligible production that would be included in the exemption proportion under the current legislation.
- Step 5: Using the result from Step 4, we calculated the additional electricity that would be included in the exemption proportion had the business' exemption proportion been revised three months after starting to share the meter, rather than waiting until the current certificate expires.

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32. We assume that each of these scenarios occurs once each year, based on historic occurrences since the schemes began in 2017. We find that these changes as a whole could result in 1,000-21,000 MWh of additional exempted electricity a year. Table 2 presents the change in exempted electricity from each scenario.

Table 2: Annual impact on exempted electricity from improving operation of the exemption scheme

Scenario	Change in exempted electricity
1: Business adds a meter	Increase of 400 – 20,000MWh
2: Business stops sharing meter with another business	Increase of 9,000 – 16,000MWh
3: Business stops making an ineligible product	Increase of 5,000 – 9,000MWh
4: Business starts to share meter with another business	Decrease of 5,000 - 9,000MWh
5: Business starts to produce an ineligible product	Decrease of 9,000 - 14,000MWh
Total	Increase of 1,000 – 21,000MWh

33. As these changes are expected to lead to a net increase in the amount of exempted electricity, this will increase electricity bills for users who are not directly affected by the changes.

34. We calculated the impact on bills by spreading the costs of the RO, FIT and CFD scheme originally levied on the additional electricity proportionately over remaining non-exempt electricity. The impact on bills is very small and below any reasonable rounding threshold even with the maximum amount of additional electricity exempted. For an average household the annual bill impact would be an increase of less than a penny.

35. The above analysis assumes:

- that under each scenario, one business a year makes the relevant change to their metering arrangement. This is based on the current incidence of these scenarios in the schemes.
- electricity consumption is stable over the time period considered; we have used this assumption to simplify the analysis. Therefore, if EII energy use in future years were to be significantly lower than forecast, the impacts would be an overestimate and vice versa.

Non-monetised Impacts

Introducing the flour milling sector as an eligible sector in the exemption schemes

36. Newly eligible businesses from the flour milling sector may increase their investment in the UK as production costs fall. In addition to this, eligibility for EII exemptions may prevent disinvestment from the UK or the scaling down of activity in the UK as businesses benefit from an increase in international competitiveness, preventing job losses and retaining jobs in the UK.

37. Furthermore, lower production costs for newly eligible businesses in the flour milling sector could result in lower prices for consumers. As a large proportion of the sector's customer base are businesses that produce secondary goods, the lower prices could lead to lower production costs along the supply chain. These savings may be passed onto the consumer or be used for business aims, both of which could result in rises in GDP and employment.

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38. Extension of the schemes' eligibility could also increase cost pressures on BEIS and delivery partners via the additional administrative burden from assessing applicants and running the schemes. The number of additional applicants is likely to be small, so these are not considered significant.

Improving the operation of the exemption schemes

39. By increasing the frequency of reporting under the exemption scheme, the administrative burden on BEIS, our delivery partners and business will increase. Again, these are unlikely to be significant due to the small number of occurrences that are likely to arise.

Summary

40. This document presents the impact of introducing the flour milling sector to the EII exemption schemes. Evidence supporting this sector's eligibility was provided during the consultation.
41. The effects are twofold: firstly, eligible businesses in the flour milling sector will face a significantly lower electricity cost, increasing their profit margins. This may reduce supply chain costs for businesses using their products, increase employment and improve UK investment. Households and other businesses, however, will see an increase in their electricity bills. EIIs currently eligible for the exemptions will face a smaller increase in their electricity prices compared to other consumers. The two effects net out overall i.e. the NPV is zero.
42. Finally, this IA presents the government's decision to improve the operation of the exemption schemes by reducing the time needed to amend a business' exemption proportion following particular changes to the business' metering arrangements. Hence businesses are more accurately exempted for the electricity they consume. The analysis shows the additional cost in the range £30,000- £400,000 to be spread among bill payers, this impact is too small to register a change to estimated bills for consumers.

Annex 1

43. The table below details BEIS' renewable electricity policies. Eligible ELLs are entitled to exemptions from part of the costs of these policies.

<i>Policy</i>	<i>Description of Policy</i>
Renewables Obligation (RO)	The Renewables Obligation is one of the main support mechanisms for large-scale renewable electricity projects in the UK. It places an obligation on UK electricity suppliers to produce a specified number of Renewables Obligation Certificates per MWh of electricity supplied.
Small-scale Feed-In-Tariff (FIT)	The Feed-in Tariffs scheme is a government programme designed to promote the uptake of renewable and low-carbon electricity generation technologies. The scheme requires participating licensed electricity suppliers to make payments for both generation and export to eligible installations.
Contracts-For-Difference (CFD)	Introduced as part of the now implemented Electricity Market Reform (EMR) programme, a generator in receipt of a CFD is paid the difference between the 'strike price' – a price for electricity reflecting the cost of investing in a particular low carbon technology – and the 'reference price' – a measure of the average market price for electricity in the Great British market.

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