Title: Relief for Energy Intensive Industries from the Indirect Costs of the NI Renewables Obligation	**Regulatory Impact Assessment (RIA)** **Date: 28 January 2022** **Type of measure:** Secondary Legislation
Lead department or agency: Department for the Economy (DfE)	**Stage:** Consultation **Source of intervention:** Domestic
Other departments or agencies: N/A	**Contact details:** Renewable Electricity Branch Netherleigh Massey Avenue Belfast BT4 2JP Renewable.electricity@economy-ni.gov.uk

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)
On 1 April 2018, an Exemption Scheme was introduced that offers relief to Energy Intensive Industries (EIIs) that operate in internationally competitive markets and could be placed at a disadvantage by the burden on retail industrial electricity prices by the costs of the Renewables Obligations[1]. This replaced an existing Compensation scheme which operated on a UK-wide basis. The Exemption was introduced in GB only, meaning that access to relief from the costs of the NIRO has effectively been removed from 1 April 2018. However, agreement reached with BEIS (and approved by HM Treasury) has ensured that the current compensation scheme will continue (paid for and administered by BEIS) on a NI–only basis until 31 March 2023. The purpose of this intervention is to allow DfE time to consider its options and to put in place a scheme to ensure that NI EIIs continue to be in a position to claim relief from the costs of the NIRO after BEIS support is withdrawn. Three options are under consideration, one of which, i.e. implementation of an NI Exemption Scheme, will require changes to the Renewables Obligation Order (Northern Ireland) 2009.

What are the policy objectives and the intended effects? (7 lines maximum)
The GB Exemption scheme removes up to 85% of the costs of the RO from the bills of EIIs with an electricity intensity of at least 20% of their Gross Value Added (GVA), with the overall aim of ensuring that large energy users that operate in internationally competitive markets e.g. glass, steel, cement, etc, are not placed at a competitive disadvantage. A Northern Ireland scheme would seek to meet the same objective.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)
DfE is considering three options going forward:-

i. Do nothing;
ii. Introduction of an Exemption Scheme (on the same basis as the GB scheme) in Northern Ireland, *paid for through additional costs on NI consumer bills*; and
iii. Secure funding from the NI Executive to enable DfE to continue delivery of the compensation scheme.

Only option ii would require changes to legislation. Option iii is the preferred option as it continues to provide relief for the EIIs without increasing the electricity bills of domestic and non-eligible businesses.

Will the policy be reviewed? The policy will be reviewed on an annual basis when exemption/compensation certificates are issued.	**If applicable, set review date:** 1 April 2024

[1] The Northern Ireland Renewables Obligation (NIRO) has been the main policy measure for supporting the development of renewable electricity IN Northern Ireland since 2005. The NIRO works in tandem with similar Renewables Obligations in England & Wales (RO) and in Scotland (ROS) and provides a route to market for renewable technologies projects which would otherwise be unable to compete with conventional generation.

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
There will be no outlay costs for exempt or non-exempt business as a result of introducing an NI Exemption Scheme or continuing with a Compensations Scheme	In the event of an Exemption Scheme being introduced, there will continue to be a net reduction in electricity costs for exempt business but non-exempt business will incur additional costs on their bills ranging between £16 and £5,616 per annum. Continuation of a Compensation Scheme would have no costs for either exempt or non-exempt businesses. If no scheme is applied to NI, the businesses currently receiving relief will face a combined annual net loss of £1.6m (based on projected compensation for 2021/22)	The costs of administering an Exemption/Compensation scheme are estimated to be in the region of £54.5k per annum for DfE. There would be no additional costs for an Exemption Scheme as the costs of relief are recovered from the electricity bills for non-exempt businesses and residential premises, (unless there are costs to the administrating body i.e. NIEN for establishing new systems or processes) A Compensation Scheme, which is supported through public funding, is estimated to cost in the region of £1.6m per annum, based on BEIS projected compensation for 2021/22.

Does Implementation go beyond minimum EU requirements?			**NO** ☑	**YES** ☐
Are any of these organisations in scope? Eligibility is based on proportion of electricity costs to GVA and only with regard to certain sectors. In effect therefore, businesses of all sizes could be eligible if they meet the criteria.	**Micro** Yes ☑ No ☐	**Small** Yes ☑ No ☐	**Medium** Yes ☑ No ☐	**Large** Yes ☑ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Date:

Summary: Analysis and Evidence — Policy Option 1

Description: Relief for Energy Intensive Industries from the Indirect Costs of the NIRO: **Do Nothing**

ECONOMIC ASSESSMENT

Costs (£m)	**Total Transitional (Policy)** (constant price)	Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low	N/A	N/A	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines
There would be no monetary costs to the Department in implementing the 'Do Nothing' option. The Compensation Scheme would come to an end and no replacement scheme would be deployed. Likewise there would be no additional cost to the consumer. However, the businesses currently eligible for relief from the indirect costs of the Renewables Obligation would find themselves in the position where they will again be paying full costs for the electricity. Based on the 10 firms that are currently receiving compensation in NI, there would be a combined cost to those businesses of approximately £1.6m per annum. This will impact significantly on their ability to compete with their sectoral counterparts across the UK and Europe and, in some cases with GB-based sites within their own company (where a company has sites in both GB and NI it could be the case that one site receives relief is while the other doesn't as the relief is meter specific).

Other key non-monetised costs by 'main affected groups' Maximum 5 lines
In the event that the current Compensation Scheme should come to an end and there is no alternative put in place on an NI-footing, the firms currently benefitting from relief will be placed at a competitive disadvantage in relation to their UK and EU counterparts. This could lead to reputational damage for the Department.

Benefits (£m)	**Total Transitional (Policy)** (constant price)	Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low	N/A	N/A	N/A	N/AI
High	N/A		N/A	N/A
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines
By not continuing to offer the Compensation Scheme BEIS (and latterly DfE) would be saving around £1.6m per annum (based on the claims currently submitted by 10 eligible NI firms). By not implementing an Exemption Scheme, non-eligible consumers in NI will be spared additional costs ranging between £0.80 (domestic) per annum and £5,616 (large business) per annum. The Department would also avoid costs of circa £54.5k per annum on administration.

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines
N/A

Key Assumptions, Sensitivities, Risks Maximum 5 lines
That businesses currently receiving EII Compensation will continue to meet the eligibility criteria for relief. The main risk is that the firms currently in receipt of relief are disadvantaged to the point where they can no longer operate or are forced to move to a region where such relief is available.

BUSINESS ASSESSMENT (Option 1)

Direct Impact on business (Equivalent Annual) £m				
Costs: -£1.6m	**Benefits:£0**	**Net:-£1.6m**		

Cross Border Issues (Option 1)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines
An EII Exemption Scheme for the indirect costs of the Renewables Obligations has been in operation in GB since 1 April 2018. If no equivalent scheme is put in place in Northern Ireland, firms in NI which operate in eligible sectors will be disadvantaged in relation to their GB-based exemption-receiving counterparts.

Summary: Analysis and Evidence — Policy Option 2

Description: Relief for Energy Intensive Industries from the Indirect Costs of the NIRO: **Introduction of an Exemption Scheme in Northern Ireland**

ECONOMIC ASSESSMENT

Costs (£m)	**Total Transitional** (constant price)	**(Policy)** Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low	N/A	N/A	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines
Consumers/businesses who are not eligible for the relief scheme will see an increase in their electricity bills as they will be required to pay more towards the NIRO. The average estimated annual bill increase is £0.80 for a domestic premise, £16 for a small business and £5,616 for a large business.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines
N/A

Benefits (£m)	**Total Transitional** (constant price)	**(Policy)** Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low	N/A	N/A	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines
The relief offered by introducing an Exemption Scheme will ensure that eligible businesses in NI will still be able to realise lower electricity costs which, if current levels of eligibility are maintained, is a saving of £1.6m per annum across 10 businesses.

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines
The key benefit of continuing to offer relief to eligible Northern Ireland's Energy Intensive Industries is ensuring that they remain competitive and, as such, continue to be in a position to maintain employment levels and contribute to the wider economic prosperity of the communities in which they are located.

Key Assumptions, Sensitivities, Risks Maximum 5 lines
The key assumptions are: (i) all businesses currently eligible for the Compensation Scheme will continue to receive Compensation/Exemption; (ii) electricity consumption remains stable over the period in consideration; and, (iii) there is no correlation between electricity intensity and electricity consumption. The main risk is that the number of businesses eligible for relief increases significantly beyond current numbers thus increasing the cost to the consumer.

BUSINESS ASSESSMENT (Option 2)

Direct Impact on business (Equivalent Annual) £m				
Costs: Between £16-£5,616 per annum for non-eligible businesses (numbers currently indefinable)	**Benefits: £1.6m of savings for the business currently eligible under the BEIS compensation scheme**	**Net: N/K**		

Cross Border Issues (Option 2)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines
An EII Exemption Scheme for the indirect costs of the Renewables Obligations has been in operation in GB since 1 April 2018. Introduction of a similar scheme in NI would put those firms in Northern Ireland operating in eligible sectors on an equal footing with their GB-based exemption-receiving counterparts.

Summary: Analysis and Evidence — Policy Option 3

Description: Relief for Energy Intensive Industries from the Indirect Costs of the NIRO: **Continuation of a Compensation Scheme on an NI-only Basis - (Preferred Option)**

ECONOMIC ASSESSMENT

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	N/A	N/A	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

Continuation of the Compensation Scheme funded by the NI Executive is expected to cost at least £1.6m per annum. In addition, there will be an annual cost of around £54.5k for DfE to administer the scheme and process payments.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines
N/A

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	N/A	N/A	N/A	N/A
High	N/A		N/A	N/A
Best Estimate	N/A		N/A	N/A

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines
The relief offered by continuing with a Compensation scheme will ensure that eligible businesses in NI will still be able to realise lower electricity costs which, if current levels of eligibility are maintained, is a saving of £1.6m per annum.

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines
The key benefit of continuing to offer relief to Northern Ireland's Energy Intensive Industries is ensuring that they remain competitive and, as such, continue to be in a position to maintain employment levels and contribute to the wider economic prosperity of the communities in which they are located.

Key Assumptions, Sensitivities, Risks Maximum 5 lines
The key assumptions are: (i) all businesses currently eligible for the Compensation Scheme will continue to receive Compensation/Exemption; (ii) electricity consumption remains stable over the period in consideration; and, (iii) there is no correlation between electricity intensity and electricity consumption. The main risk is that the number of businesses eligible for relief increases significantly beyond current numbers thus increasing the cost to the consumer.

BUSINESS ASSESSMENT (Option 3)

Direct Impact on business (Equivalent Annual) £m				
Costs: No direct cost to business. Compensation will be paid from public purse	**Benefits: £1.6m of savings for the businesses currently eligible under the BEIS compensation scheme**	**Net: £1.6m**		

Cross Border Issues (Option 3)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines
An EII Exemption Scheme for the indirect costs of the Renewables Obligations has been in operation in GB since 1 April 2018. A continuation of the current EII Compensation Scheme (which operates on the same criteria as the Exemption Scheme) with NI Executive financial support would put those firms in Northern Ireland operating in eligible sectors on an equal footing with their GB-based exemption-receiving counterparts.

Evidence Base

There is discretion for departments and organisations as to how to set out the evidence base. It is however desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing), with reference to the evidence base to support the option selection;
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the RIA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business;
- Wider impacts (in the context of other Impact Assessments in Policy Toolkit Workbook 4, economic assessment and NIGEAE)

Problem under consideration

Renewables Obligations (ROs) operate across England & Wales (RO), Scotland (ROS) and Northern Ireland (NIRO) as a means to increasing the level of renewable electricity generated across the UK. The ROs place a legal requirement on licenced electricity suppliers to provide evidence that a specified quantity of the electricity they supply to consumers can be accounted for as generation from renewable sources. Evidence of compliance takes the form of Renewables Obligation Certificates (ROCs) which are issued by Ofgem[2] to generators for each megawatt hour of electricity generated. Generators sell the ROCs to suppliers, giving them a value. The cost of the ROs is passed on to consumers through electricity bills.

The increase in retail electricity costs brought about by the ROs risks reducing the competitiveness of the most electricity intensive businesses where they operate in internationally competitive markets.

To counteract this risk, in January 2016, the then Department for Energy and Climate Change (DECC)[3] launched a UK-wide compensation scheme offering relief to Energy Intensive Industries (EIIs) from the indirect costs of all three ROs and the Small-Scale Feed-in Tariff (FIT) (which operates in GB only) back-dated to 14 December 2015.

Funded through taxation, the compensation scheme provides compensation for up to 85% of the costs of the RO/FIT schemes to EIIs with electricity intensity of 20% or above[4]. Ten businesses in NI have benefitted from the compensation to date.

Budget for the compensation scheme did not extend beyond 31 March 2017 and so the UK Government announced its intention to replace the compensation with an exemption scheme in order to ensure that eligible EIIs have long-term certainty and remain competitive. The exemption scheme for the ROs commenced operation in GB with effect from 1 April 2018.

As it could not be determined how many EIIs existed in NI and thus the potential additional cost to non-EII consumers, a decision on NI's participation in the GB exemption scheme had not been taken at the time of State Aid notification and, as a result, NI was not a consideration in the EU approval. **The Exemption Scheme has not therefore been implemented in NI.**

To ensure that NI EIIs continued to receive relief beyond 31 March 2018, the Department for Business, Energy and Industrial Strategy (BEIS), with HM Treasury approval, agreed that the EII compensation scheme for the indirect costs of the Renewables Obligation (RO) will continue on an NI-only basis for a time-limited period i.e. until 31 March 2023.

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[2] Office of Gas and Electricity Markets
[3] Now vested in the Department of Business, Energy and Industrial Strategy (BEIS)
[4] To be eligible for the compensation scheme applicants must satisfy a Business Electricity Intensity test by showing that their implied average electricity costs amount to 20% of the average GVA.

Beyond 31 March 2023, the Department for the Economy will have to put in place its own arrangements for continuing to provide relief to NI's eligible EIIs, otherwise those businesses will have no access to relief from the indirect costs of the NIRO. This represents an estimated combined financial burden of at least £1.6m per annum for the businesses currently involved.

Rationale for Intervention

As above.

Policy Objective

The key objective of the proposal is to ensure that EIIs located in Northern Ireland are not disadvantaged in relation to their GB counterparts beyond 31 March 2023, in that they can continue to access relief from the indirect costs of the NIRO post-removal of BEIS' continued support through the compensation scheme.

Description of the options considered (including do nothing), with reference to the evidence base to support the option selection

i. Do nothing;
ii. Introduction of an Exemption Scheme (on the same basis as the GB scheme) in Northern Ireland (*paid for through additional costs on NI consumer bills*); and
iii. Secure funding from the NI Executive to enable DfE to continue delivery of the compensation scheme. (***This may be needed in any case for a short period if option ii is to be pursued to cover any gap between the ending of BEIS funding and the commencement of an NI exemption scheme***)

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Do Nothing

There are no financial costs associated with this option for DfE. However, there will be reputational cost for failure to act in the face of some of Northern Ireland's highest electricity users being put at competitive disadvantage by the withdrawal of support mechanisms for relieving the burden of Northern Ireland's key renewables incentive.

The real costs will be borne by the eligible EIIs who will have to carry a combined additional financial burden of £1.6m per annum. This would impact on their cost-effectiveness and, ultimately, on their ability to compete.

Introduction of an Exemption Scheme

The cost to the Department in respect of this option will be minimal and will largely be related to administration.

This option will obviously be beneficial to the existing EIIs in that they will continue to have access to relief from the indirect costs of the NIRO, which, in turn, will continue to place them in a position to compete with their UK (and wider) counterparts.

Implementation of this option will however lead to increases in electricity bills for all domestic and non-eligible business consumers for the benefit of a relatively small number of companies. Based on the level of compensation paid to the ten eligible NI companies to date, it is estimated that the additional annual costs to domestic users would be £0.80; to small business users would be £16 and to large, non-exempt energy users £5,616.

This may have implications for those in fuel poverty. It has proved challenging to identify specific data for the impacts that a £0.80 per annum increase in consumer bills will have on our fuel poor. However, information attributed to a witness statement given by Dr Brenda Boardman, Emeritus Fellow, Environmental Change Institute, University of Oxford in the case of Friends of the Earth and Help the Aged –v- the SofS for Business, Enterprise and Regulatory Reform/ Environment, Food and Rural

Affairs and the Fuel Poverty Advisory Group (9 April 2008) which would indicate that (very roughly speaking) a 1% rise in energy prices will lead to an additional 40,000 households being pushed into fuel poverty (at a UK level). Dr Boardman made this statement in the context of the UK Fuel Poverty Strategy (at that time) in which Government estimated that if electricity and/or gas prices increased by 5% and 15% respectively, numbers in fuel poverty could increase by around 0.8 million.

Continuation of the current Compensation Scheme on an NI-only basis with NI Executive funding

There will be no financial costs to DfE until 1 April 2023 as this would be covered by BEIS. However, the financial cost to the Department/NI Executive of this option beyond the BEIS time limits will be significant i.e. at least £1.6m per annum. This is an additional requirement to the NI budget and would have to be found from within the Block and would be a continued and potentially increasing requirement (if more EIIs join the scheme) until such times as a decision is taken to introduce an exemption scheme, the State Aid approval for the Compensation Scheme expires (2025) or NIRO completes (2037).

This option would benefit both the EIIs (as they would continue to receive relief from the indirect costs of the NIRO) and wider consumers as they would not incur any additional direct costs on their electricity bills.

(***This may be needed in any case for a short period if option ii is to be pursued, to cover any gap between the ending of BEIS funding and the commencement of an NI exemption scheme***)

Rationale and evidence that justify the level of analysis used in the RIA (proportionality approach)

See above.

Risks and assumptions

The key assumptions are:

(i) all businesses currently eligible for the Compensation Scheme will continue to receive Compensation/Exemption;
(ii) electricity consumption remains stable over the period in consideration; and,
(iii) there is no correlation between electricity intensity and electricity consumption.

The main risks are that:-

(i) the businesses currently receiving relief under the Compensation Scheme can no longer operate or are forced to move to a region where relief is available (Do nothing Option);
(ii) the number of businesses eligible for relief increases significantly beyond the current numbers thus increasing the cost to the consumer (under the Exemption option); and
(iii) the number of businesses eligible for relief increases significantly beyond the current numbers thus increasing the cost to the public purse (under the Compensation option).

Direct costs and benefits to business

Under the Do Nothing option, there will be a direct cost of £1.6m per annum to the businesses that are at risk of losing access to relief from the indirect costs of the NIRO.

Under the Exemption option there will be direct costs to non-eligible businesses of between £16 and £5,616 per annum, passed on through their electricity bills.

Under the Compensation option, there will be no direct cost to business as the costs of compensation will be covered through the NI Executive Budget.

Wider Impacts

The Department has conducted a screening exercise to assess if implementation of the options would have wider impacts (positive or negative) on Equality, Environmental or Economic issues. The Department has ascertained that there are no Environmental or Economic impacts therefore a SEA or Economic Appraisal are not required. While option 2 has the potential to impact on certain groups through increases in fuel poverty there is no empirical evidence in that regard therefore an equality impact assessment (EQIA) is not required.