

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT

First Delegated Legislation Committee

## DRAFT ELECTRICITY SUPPLIER OBLIGATIONS (EXCLUDED ELECTRICITY) (AMENDMENT) REGULATIONS 2023

*Monday 13 March 2023*

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

**not later than**

**Friday 17 March 2023**

© Parliamentary Copyright House of Commons 2023

*This publication may be reproduced under the terms of the Open Parliament licence, which is published at [www.parliament.uk/site-information/copyright/](http://www.parliament.uk/site-information/copyright/).*

**The Committee consisted of the following Members:**

*Chair:* DAME ANGELA EAGLE

† Afriyie, Adam ( <i>Windsor</i> ) (Con)	† Owatemi, Taiwo ( <i>Coventry North West</i> ) (Lab)
† Butler, Rob ( <i>Aylesbury</i> ) (Con)	† Randall, Tom ( <i>Gedling</i> ) (Con)
Byrne, Ian ( <i>Liverpool, West Derby</i> ) (Lab)	† Smyth, Karin ( <i>Bristol South</i> ) (Lab)
† Dalton, Ashley ( <i>West Lancashire</i> ) (Lab)	† Solloway, Amanda ( <i>Parliamentary Under-Secretary of State for Energy Security and Net Zero</i> )
† Dixon, Samantha ( <i>City of Chester</i> ) (Lab)	† Western, Andrew ( <i>Stretford and Urmston</i> ) (Lab)
† Evans, Dr Luke ( <i>Bosworth</i> ) (Con)	† Whitehead, Dr Alan ( <i>Southampton, Test</i> ) (Lab)
† Jones, Andrew ( <i>Harrogate and Knaresborough</i> ) (Con)	† Whittaker, Craig ( <i>Calder Valley</i> ) (Con)
† Milling, Amanda ( <i>Cannock Chase</i> ) (Con)	Liam Laurence Smyth, <i>Committee Clerk</i>
† Morrissey, Joy ( <i>Beaconsfield</i> ) (Con)	† <b>attended the Committee</b>
Nici, Lia ( <i>Great Grimsby</i> ) (Con)	

**The following also attended, pursuant to (Standing Order No. 118(2)):**

Wheeler, Mrs Heather (*South Derbyshire*) (Con)

# First Delegated Legislation Committee

Monday 13 March 2023

[DAME ANGELA EAGLE *in the Chair*]

## Draft Electricity Supplier Obligations (Excluded Electricity) (Amendment) Regulations 2023

4.30 pm

**The Parliamentary Under-Secretary of State for Energy Security and Net Zero (Amanda Solloway):** I beg to move,

That the Committee has considered the draft Electricity Supplier Obligations (Excluded Electricity) (Amendment) Regulations 2023.

This statutory instrument amends the Electricity Supplier Obligations (Amendment and Excluded Electricity) Regulations 2015. The existing legislation supports the competitiveness of energy-intensive industries by providing for a scheme exempting eligible businesses from a proportion of the costs of funding renewable electricity. These are costs associated with funding the renewables obligation, contracts for difference and the small-scale feed-in tariff schemes. The costs associated with those schemes are passed on by electricity suppliers through their electricity bills, and they have a particularly high impact on foundation industries such as steel, paper, chemicals and cement, which are critical to many infrastructure projects and provide well paid, highly skilled jobs across the United Kingdom. As foundation industries, these businesses are critical in the development of new projects, including offshore wind, and therefore play an important role in the transition to net zero.

The exemption also provides relief for new and emerging industries such as battery manufacturers, which are critical to electric vehicles, and manufacturers of semiconductors, which are critical to the UK high-tech economy. They provide not only direct jobs but indirect jobs in the aerospace and automotive sectors. They employ people from Cornwall to Kent and from Grangemouth to South Wales.

The original legislation was put in place in 2017, and since then over 320 businesses have benefited from the exemption. Under the regulations, businesses that applied in 2017 will need to be reassessed this year using the last three years of data. For many businesses that will include 2020 and 2021. This statutory instrument allows businesses to exclude data from that period where it does not reflect the normal course of business. Some businesses had to reduce production or lost profitability during the covid pandemic. The flexibility in this instrument will enable them to continue to benefit from the exemption. It also allows companies applying for an exemption to apply for relief with one quarter's worth, rather than two quarters' worth, of data. That will encourage new businesses and start-ups to apply for relief.

The sectors eligible for the existing exemption scheme employ around 400,000 workers and account for over a quarter of total UK exports. Many are located in areas of economic disadvantage and provide good, high-paid

jobs. In the UK, our electricity prices for medium and large industrial users were the highest in western Europe in 2018. Clearly, electricity costs have a significant impact on the competitiveness of such enterprises. The industries affected operate in international markets, so higher electricity costs place them at a competitive disadvantage, which results in the risk of "carbon leakage", whereby companies choose to move their production to countries with less ambitious climate policies.

Existing legislation covering energy-intensive industries allows eligible businesses to receive an indirect exemption of up to 85% of the costs of funding renewable electricity schemes. Where an eligible business applies successfully for the exemption, its electricity supplier receives a reduction in the costs, which in practice it passes on to the eligible business. That approach mitigates the cost of the renewable electricity scheme, supports industrial competitiveness and provides certainty for businesses. The costs of the exemption are distributed to all other electricity users. The regulations amend legislation to improve access to the exemption for new companies. They also allow companies to exclude two years of data from their application, which accounts for the impact of the covid-19 pandemic.

In conclusion, the regulations will improve the operation of the scheme and support the competitiveness of energy-intensive manufacturing industries in the United Kingdom, and I commend them to the Committee.

4.35 pm

**Dr Alan Whitehead** (Southampton, Test) (Lab): The SI looks very straightforward. It proposes two minor amendments to the qualifying arrangements for the energy-intensive industries exemption scheme, which, as the Minister says, came into force in 2017. It replaced a discount scheme with one in which energy-intensive industries were eligible for a discount of 85% on the green and environmental levies charged to other industries to deal with, for example, the cost of the renewables obligation and contracts for difference.

As the Minister says, the continued eligibility of companies for the scheme was designed to be reviewed by 2022. Some companies' eligibility may have lapsed because during the pandemic they did not produce to the same extent as they do now, or because they had other arrangements that they needed to carry out that might have infringed on the rules of the scheme. The arrangements proposed today shorten the period for which accounts and various other things need to be provided, so that eligible companies can be judged on the basis of their present performance, rather than their performance over five years.

I would be grateful if the Minister could elucidate other matters relating to the scheme, as they are quite important for our overall judgment of it. First, as she said, the original 2017 EII exemption applied to about 315 eligible businesses. Indeed, the SI that introduced the scheme provided a number of specified activities in sectors exempted because of their energy-intensiveness. However, although she suggested that those 315 businesses now have their eligibility up for renewal, it appears that when the scheme was launched in November 2017, only 170 companies applied. Unless there has been substantial changeover since 2017, and a number of new companies make up the difference between the 315 eligible businesses

and the companies that applied, we appear to be short a number of companies—eligible companies that have not yet received the discount on their electricity bills, for reasons that I can only conjecture about. Perhaps they thought applying for the scheme was too difficult, or did not know about it.

We have a potential double problem. The SI suggests that things could be made easier by our relaxing the requirements on companies that are renewing their eligibility. It appears that a number of companies that were in principle eligible for the scheme as it was—not as it is now—still have not got any exemption. With these new reliefs and eligibility requirements, companies not in the scheme could be brought into it. Whether the Government have any positive methods of ensuring that they are brought in, I do not know; the Minister may be able to enlighten us.

In 2017, when the scheme came in, it gave an 85% exemption, but in August 2022 the Government announced that they would take the scheme further and introduce 100% exemption for energy-intensive industries. As far as I know, nothing has happened on implementing that proposal. There was considerable press coverage of the intention to increase the exemption to 100%, but there is very little press coverage of the fact that the Government appear to have done nothing to implement that increase—or if they have, it has passed me by, and it has certainly has not been recorded to any great extent.

If it is still proposed that the 100% scheme will be implemented in the not-too-distant future, that will make a difference to the extent of the exemption arrangement, and to the measures needed to make sure that the scheme is easier to requalify for, so that businesses can get an exemption more valuable than the 85% exemption.

**Samantha Dixon** (City of Chester) (Lab): Forgive me if I have misunderstood, Dame Angela, but only this morning, I received a letter from a laundry based in my constituency, which made the point that its energy bills have escalated considerably. It appears—unless I misread the letter—that the laundry sector is not covered by the regulations. Does my hon. Friend agree that laundry—for the tourism trade in my constituency, but also for healthcare operations—is a vital sector that has soaring costs, and needs to not be overlooked?

**Dr Whitehead:** My hon. Friend makes a very good point that slightly anticipates my third and final question for the Minister. She is quite right, and by coincidence, I have in front of me the complete list of activities that qualify as energy-intensive industries. Laundry and associated activities are not on the list. However, interestingly, the mining of hard coal is. It is curious that those mining hard coal are exempt from all the levies that go towards mitigating the pretty bad things done to the environment through the mining of hard coal. I would have thought that the mining of hard coal should in no way be in the schedule of specified activities. My hon. Friend suggests other things that should be in that schedule and eligible for levy reductions. Does the Minister intend to review the schedule, which dates from 2017, and who is eligible for exemptions? If she does, what will be the criteria for inclusion among energy-intensive industries? If she does not, is she happy that mining hard coal continues to be 85% exempt?

Labour will not oppose this SI, because it represents a sensible change to the scheme and takes account of what happened during covid. I think the Minister will agree, however, that there are questions, some clear and some rather less clear, about the operation of the EII scheme that need answering before we can conclude our business this afternoon.

4.46 pm

**Amanda Solloway:** I thank the hon. Member, as ever, for his valuable and well thought out contribution.

The exemption provides relief for key foundation industries, including companies operating in the steel, paper, chemicals, cement, and glass sectors. The scheme also supports emerging sectors, such as battery manufacturers and companies making semiconductors. The companies that the scheme supports are located across the country and provide high-paid, good-quality jobs, both directly and in the supply chain.

The hon. Member asked about communication. Communication is key in all that we do, and we will endeavour to ensure that we keep on communicating all we are doing to support the industry. The regulations are necessary to improve the operation of the scheme. They will make it easier for start-ups and businesses to apply. They will also allow businesses to account for the impact of covid-19 when applying for relief. We will update and publish our guidance on gov.uk in April 2023 to ensure that business is aware of the relief, and we will proactively engage with stakeholders to ensure that they are aware of the changes. All 320 companies have received a discount, and we know that other companies have already applied. The list of eligible sectors is based on the most electricity and trade-intensive businesses. We continue to engage with industry and other stakeholders to ensure that support is targeted at those sectors most exposed to high electricity costs.

The hon. Member asked about the 100% exemption. On 23 February 2023, the Government announced their intention to move to 100% as part of the British industry supercharger. The delivery mechanisms and timelines for the implementation of the supercharger will be consulted on this spring.

**Dr Whitehead:** What the Minister says appears to be a reannouncement of what was announced in August and not proceeded with. Is the Minister now saying that the 100% discount is being proceeded with, and will be in place, say, this spring or later on? When does she think that might happen?

**Amanda Solloway:** To reiterate, the Government announced their intention to move 100% as part of the British industry supercharger on 23 February 2023.

**Dr Whitehead:** But you announced it in August last year.

**The Chair:** Order. Rather than speaking while sitting down, the Member might want to intervene; I am sure the Minister would let him.

**Dr Whitehead:** I apologise.

**Amanda Solloway:** Following a consultation in spring 2023, we will come forward with our proposals on the recently announced British industry supercharger, which aims to roll out further support to important manufacturing businesses by exempting firms from certain costs arising from renewable energy obligations, as well as GB capacity market costs, while exploring reductions for network charges, which are the costs industrial users pay for their supply of electricity.

**Andrew Western** (Stretford and Urmston) (Lab): Given the intention to look at the list of industries, will the Minister commit to reviewing the inclusion of the

mining of hard coal? My hon. Friend the Member for Southampton, Test, suggested that it may be wise to do so.

**Amanda Solloway:** The list of eligible sectors is determined by their electricity and trade intensity. I commend the regulations to the Committee.

*Resolved,*

That the Committee has considered the draft Electricity Supplier Obligations (Excluded Electricity) (Amendment) Regulations 2023.

4.51 pm

*Committee rose.*



