United Kingdom

Electric Power Market Overview

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**Current Market Conditions & Overview**

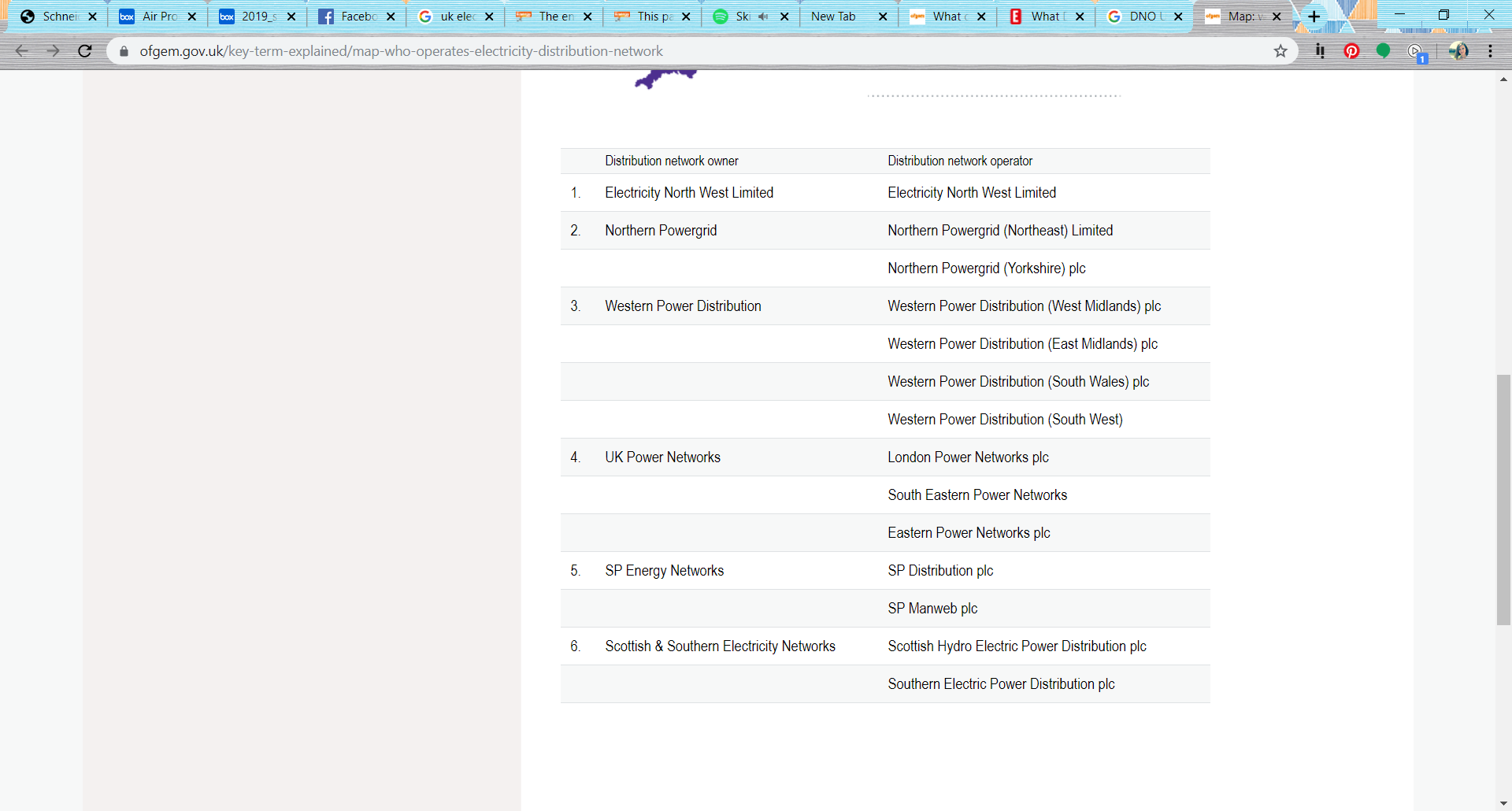
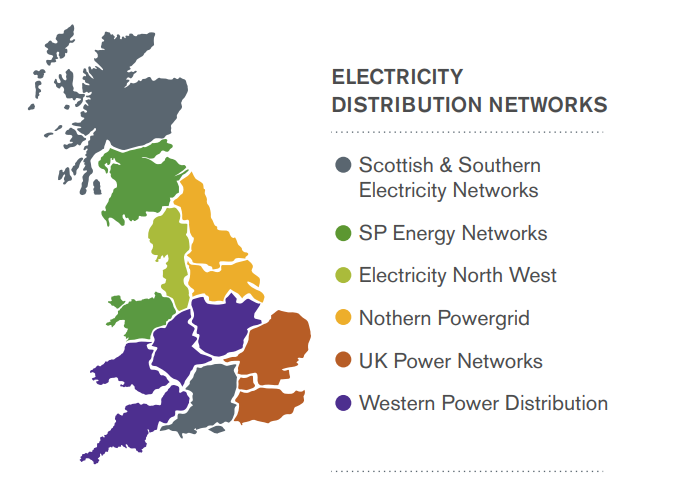
**Market Structure**

The United Kingdom has a deregulated market for both domestic and non-domestic electricity consumers, since the 1999 liberalization of the full electricity sector.

There are hundreds of Utility companies active within the UK market available for consumers to choose for their electricity supply, however the UK energy markets have traditionally been dominated by the “Big 6”. They are British Gas, EDF Energy, E.On, Npower, Scottish Power and SSE. They supply energy to over 50 million homes and business throughout Britain and are considered to have over a 90% share of the market. There are many independent providers available on the market, and their combined market share is increasing over time.

Please see the brief list of primary market participants below:

* **Market Regulator:** The electricity market within the UK is regulated by the Office of Gas and Electricity Markets (OFGEM). It is a non-ministerial governmental department, and an independent National Regulatory Authority, recognized by EU Directives. The primary duty of OFGEM is to protect the interests of consumers. OFGEM regulates electricity transported through the transmission and distribution systems & encourages fair competition in the market where possible. OFGEM has the power to discipline any players in the market who do not comply with their regulations, having handed out around £100m of fines since 2010. It also creates the regulatory framework within which a new energy policy set by the UK government can take place.
* **Transmission System Operator**: The Electricity Transmission System in the UK is owned and maintained by regional transmission companies, while the system as a whole is operated by a single Electricity System Operator (ESO). In 2017 Ofgem, the Department for Business, Energy and Industrial Strategy (BEIS) and National Grid plc (previous owner of the electricity transmission network) agreed to create a legally separate business – National Grid Electricity System Operator (ESO) – within the National Grid Group. ESO became a separate entity within the group on 1 April 2019.
  + There are currently three Transmission Operators (TOs) permitted to develop, operate and maintain a high voltage system within their own distinct onshore transmission areas. These are National Grid Electricity Transmission plc (NGET) for England and Wales, Scottish Power Transmission Limited for southern Scotland and Scottish Hydro Electric Transmission plc for northern Scotland and the Scottish islands groups.
  + The ESO also operates and is part owner of the 2000MW interconnector between the UK and France, and the 1000MW interconnector between the UK and the Netherlands.
* **Distribution System Operator(s):** Within the UK, there are currently 14 licensed distribution network operators (DNOs), with each one responsible for a regional distribution service area. The 14 DNOs are owned by 6 different groups.  
  There are also Independent Networks Operators (IDNOs), all of whom are based within the regions covers by the DNOs. All IDNOs and DNOs must hold a license in order to operate, which contains conditions which limit the amount of revenue which can be recovered from the customers within their regions. The parties must follow common charging methodologies, set out through the Distribution Connection and Use of System Agreement.



*Source: OFGEM*

* **Wholesale Market/ Exchange**: Wholesale market trading in the UK is generally carried out between suppliers, generators, traders and customers. Trades can be made bilaterally, or on exchanges. Exchanges on which electricity can be traded include ICE, Nord Pool Spot, and EPEX Spot. Contracts for electricity can be struck over timescales covering several years ahead, to intraday trading. Over the counter (OTC) trading is available and widely used.

**Transparency of Pricing**

Energy contracts for non-domestic customers are mostly negotiated and bespoke, hence less public information is available on tariff trends.

There is more transparency on prices for microbusinesses than for large industrial businesses since the Competition and Markets Authority required suppliers to make tariff information clearly available on their websites or via a link to a price comparison website. This still has limited effectiveness due to the high number and complexity of tariff options available across UK suppliers.

As small/medium businesses with lower consumption levels (< 5GWh per annum) often opt for a fixed price contract with an all-inclusive single tariff, they face zero transparency on what elements their final price contain.

For larger energy users (> 5 GWh or rather above >10 GWh per annum), greater transparency on the different price elements can be achieved by opting for flexible supply contracts, where the commodity price is subject to any trading activities, i.e. not fixed for the supply period. As the commodity is not bundled into one single rate, but calculated separately, supplier invoices can provide detailed breakdowns of the following charge elements:

* Commodity Cost
* Network Costs (Transportation, Distribution, Balancing etc.)
* Third-Party (Regulated) Cost
* Supplier margin
* Taxes and other levies

**Market Drivers**

The primary market drivers for UK’s electricity market are summarized below:

* **More Renewable Energy**: The United Kingdom’s electricity generation is transitioning from a large-scale, conventional fossil-fuel dominated generation mix to renewable generation such as wind and solar farms. Power generation in the UK was traditionally driven by the use of coal plants, however there has been a deliberate shift away towards using power sources with less emissions. Over the past few years, we have seen a marked increase in output from wind and solar farms, resulting in renewable energy reaching a ~35%[[1]](#footnote-1) share of the overall electricity generation. Wind plays the largest part, through both onshore and offshore wind farms, while solar PV has seen a large increase in installed capacity in recent years. Renewable generation is supported through multiple schemes in the UK, such as Feed in Tariffs, the Renewable Obligation, Contracts for Difference, and the Capacity Market.
* **Coal Phase-Out**: Since 2015, the share of electricity generated from coal has significantly decreased. Lower electricity demand and high carbon prices continued the decline of coal-fired electricity, with the Q2-2019 period registering the first quarter since the late 19th century where coal-fired electricity generation was below 1% of total electricity generation. This transition is due to the UK’s current target for closing all coal power plants, as announced by the Department for Business, Energy and Industrial Strategy (DBEIS), by 2025.
* **Natural Gas as Substitute:** It has been necessary to replace the coal lost from the generation system with gas, as it provides a more constant output than intermittent renewables. The current share of gas-generated electricity is around 43%[[2]](#footnote-2). Therefore, the price of gas and electricity price show a high correlation.
* **Nuclear Power**: Nuclear also has quite a strong presence in the UK market, with plans for continued development, most notably through the Hinkley Point C Nuclear Reactor project, hoped to come online in around 2025.

**Future Market Developments**

Future market developments for the United Kingdom electricity market are summarized below:

**Brexit and its impact**[[3]](#footnote-3) will have a significant effect on the electricity market. The EU has officially approved the UK’s extension request, delaying the UK’s departure date up to 31 January 2020 – however, it may take place earlier in case the deal is passed in the UK parliament sooner. The UK’s electricity markets are currently integrated (‘coupled’) into those of the EU, with common rules governing their operation. Significant cross-border flows of electricity take place between continental Europe, Great Britain, Norther Ireland and the Republic of Ireland. These flows, and the domestic markets, are currently governed through EU legislation relevant to the functioning of the EU’s Internal Energy Market. The future of carbon pricing, cross-border energy flows and the potential for new energy tariffs are all among the issues under consideration which will affect the future direction of wholesale prices, and hence customers’ bills. Of these the four most important areas of impact are as follows:

* **EU ETS:** In case a divorce agreement is ratified before the new deadline, UK entities will be legally obliged to comply with the 2019 emission year.
  + UK auctions are expected to be resumed – however, the yearly volumes will most likely be spread out until the compliance deadline, and not be released on the market all at once. A delay in the UK compliance deadline is also possible.
  + Going forward, the UK is set to remain a member of the EU ETS for the transition period in case a deal is agreed. Beyond that, the UK may attempt to create a domestic carbon market linked to the EU ETS, or switch to a carbon tax system.
* **EU Guarantees of Origin (GO) and Renewable Energy Guarantees of Origin (REGO):** Both certificates will continue to be recognized by the UK government. If the UK leaves the EU with a deal, UK REGOs will continue to be recognized by EU member states until the end of the implementation period (31 December 2020). In a no-deal, there will not be a transition period and UK REGOs will no longer be recognized by EU member states after exit day.
* **REMIT reporting obligations:** Reporting obligations are set to be largely unchanged in the event of a no-deal Brexit, trading parties will need to be registered in an EU country to trade in that market.
* **Other implications:** The UK would decouple from the EU Internal Energy Market and potentially lose tariff-free trading – which might reduce incentives for interconnectors to be built; UK and EU industry codes could also diverge.
  + Cross-border trading rules will need to be developed in case of a no-deal Brexit.
  + The European Investment Bank has been a major supporter of the UK’s energy sector, which may adversely be affected by a no-deal Brexit
  + Uncertainty over interconnector flows may encourage investment in energy storage

There are also future developments not specifically related to Brexit which could affect the electricity market going forward. These are as follows:

* **Capacity Market**[[4]](#footnote-4):
  + On 15 November 2018 the judgment of the General Court of the Court of Justice of the European Union effectively annulled the European Commission’s State Aid approval for the GB Capacity Market scheme and introduced a Standstill Period.
  + On 24 October 2019, the European Commission confirmed that the GB Capacity Market scheme is compatible with EU State Aid rules. This means capacity payments can restart under the GB Capacity Market scheme.
  + In November 2019 suppliers will be invoiced for the Standstill Collection Period Supplier Charge and the first post-Standstill month (December) Credit Cover will also need to be posted.

* **Targeted Charging Review (TCR)[[5]](#footnote-5):** In August 2017 Ofgem launched an industry-wide consultation to assess how residual network charges should be set and recovered in Great Britain. Network use-of-system charges for transmission & distribution (TNUoS and DUoS respectively) are built up to recover transportation costs through two types of charges: ‘forward looking’ charges which give the locational signal for the tariffs, and ‘residual’ charges, which recover the remainder of the costs, to ensure that Network Operators accumulate the correct revenue.

The current methodology for both TNUoS and DUoS enables consumers who can be flexible and reduce consumption during peak times to reduce their share of costs. Ofgem’s aim going forward is to ensure that all transportations costs are shared fairly amongst all those who may want to use the electricity networks, i.e. to make sure that those consumers who are not able to be flexible at peak times will not end up paying more.

This in practice can mean that large consumers who currently reduce grid demand at peak times – including during suspected Triad periods – are more likely to end up with higher bills. The anticipated extra cost will most likely be dependent on your consumption pattern and on where you’re located on the network.

On 21st November 2019, Ofgem published the decision that residual charges will be levied in the form of fixed charges for all households and businesses. It also indicated that the liability for the Transmission Generation Residual from Generators will be removed and changes will be made to one of the ‘Embedded Benefits’ received by Smaller Distributed Generators in relation to balancing services charges.

**Current Country Distribution & Transmission Charges**

The current distribution & transmission charges were set on ­­1st April 2019. Please see a brief description and summary of the charges below:

Transmission Network Use of System (TNUoS) Charges

Transmission charges are set by National Grid Electricity System Operator (ESO) through its role as system operator. The design and maintenance of the relevant charging methodologies is enforced through license conditions. The charging methodologies administered by ESO are contained in section 14 of the Connection Use of System (CUSC) industry code.

The aim of the TNUoS charges are to compensate the ESO for the ongoing maintenance and development of the National Grid. Larger consumers who have Half-Hourly (HH) meters are charged based on the TRIAD methodology, which are explained below, and non-Half-Hourly (NHH) supplies are charged on a year-round basis.

For the larger consumers who have Half Hourly (HH) metering, the methodology by which they pay their TNUoS charges is the TRIAD system. All HH metered consumers are subject to the TRIAD scheme. TRIAD periods are the 3 highest periods of peak demand for the UK throughout the winter season (November – February) as confirmed based on settlement metering by the ESO. All consumers have their demand measured at these 3 points during the winter, and they are charged a £/kW rate for this demand. The charges are separated on a geographical basis, dependent on which Transmission zone[[6]](#footnote-6) that the facilities are located within.

Balancing Use of System (BSUoS) Charges

The Balancing use of System charges are modelled around several components such as the predicted demand levels under the future energy scenarios outlined by National Grid, future renewable production and forecast inflation.

Balancing costs will be dependent on a few factors in the future such as increased renewable and intermittent generation, system constraints, and additional interconnection. Constraint costs are the most notable costs recovered through the BSUoS charge. In the last few years, these have been increasing almost proportionally to the amount of wind production on the grid.

For example, on some very windy days, some wind farms may be required to be shutdown to ensure grid stability. The intermittent nature of wind power creates frequency and voltage issues which need to be rectified by mitigating wind power on the grid and procuring balancing services from conventional generators. This adds additional cost to the BSUoS charge each year.

As part of the [Targeted Charging Review](#_Targeted_Charging_Review) Ofgem is weighting in significant potential changes how the charge is collected in the future. The reform will mostly affect small embedded export generation units and according to plan their exemption from BSUoS charge payments in the current arrangement will be lifted. Also, small embedded generations have benefitted from payments from suppliers for helping them to reduce their contribution to costs to balancing the system and this phenomenon is aimed to be cancelled out as well.

The proposed reform, however, would not affect negatively those with on-site generation which is not exported, as they would continue to benefit from avoiding paying generation BSUoS, alongside avoidance of network and policy costs in general by helping to reduce demand for the site where it is located.

Distribution Use of System (DUoS) Charges

Distribution charges are set by the individual DNOs. They use a common charging methodology which is set out in the Distribution Connection and Use of System (DCUSA) document. While the actual charges are not approved by OFGEM, the methodologies used to calculate them are.

DUoS charges are made up of multiple components. How they are charged depends on which of the distribution zones the consumer sits within. There are 14 distribution zones within the UK. The tariff rates are then set based on whether the electricity supply to the consumer through the distribution system is categorized as Low Voltage (LV), Low Voltage Sub (LV Sub), High Voltage (HV), or Extra High Voltage (EHV). Low voltage refers to nominal voltages below 1kV, High voltage refers to nominal voltages of at least 1kV and less than 22kV, and Extra High voltage refers to nominal voltages of 22kV and above. For all categories apart from EHV, every charge for each element of the DUoS costs is set the same for each consumer within the same location and with the same level of voltage. EHV charges are all calculated on a site-specific basis, following the EHV Distribution Charging Methodology (ECDM).

The elements that make up the DUoS charges are:

1. ***Unit Rates***

* Typically for all categories below EHV, there are red, amber and green band time rates.
* The red time band is the time of peak demand during the day, between 16:30 – 19:30 on weekdays. The red band has the highest rate.
* The amber band is the periods of the day with average demand levels, between 08:00 – 16:30 and 19:30 – 22:30 on weekdays, and between 16:00 – 20:00 on weekends.
* The green time band covers the times of lowest demand and covers all times not subject to the red or amber bands.
* The consumer is charged the set tariff during each time band for every unit of electricity consumed. In the case of EHV, there can also be a Super Red time band.

1. ***Fixed Charge/Standing Charge.*** A straight charge given on a £/day basis.
2. ***Capacity Charge.*** This charge is given on a £/kVA/day basis. The kVA capacity is the maximum that the consumer would expect to use. Penalty charges may apply if this level is exceeded.

**Energy Related Taxes**

Other components of regulated electricity costs in addition to the transmission and distribution system usage charges are:

* **Climate Change Levy (CCL):** The climate change levy was introduced by the UK Government in April 2001 and is paid by UK business/non-business users via their energy bills. It was launched to reduce greenhouse gas emissions by promoting energy efficiency and encouraging businesses to purchase energy from low CO2 sources. As the CRC scheme is being closed, CCL charges will be increased to make up for the shortfall. The CCL is charged on a p/kWh basis, and is a flat rate paid across the UK.
* **Value Added Tax:** VAT on electricity supplies is charged at the standard 20% rate. The only exceptions to this can be made in certain cases, such as for small energy consumers or charitable bodies, who can be charged a reduced rate of 5%.

Below are listed some charges which may not necessarily be classed as a tax or levy, but which do have an impact of final invoiced electricity costs.

* **Feed in Tariff (FiT) Charge:**  The UK government enabled the Feed in Tariff (FiT) through the UK Energy Act in 2008 and the tariff was introduced in April 2010. The scheme encourages small scale generation (>5MW) of renewable and low carbon energy by homes and businesses. A FIT year runs from 1st April to 31st March. Suppliers now take FIT costs very seriously and due to the increases observed, suppliers are now recovering these costs from customers. Due to the nature of the costs and the reconciliation process, the methodology of a FIT ‘charge’ is open to interpretation for application to electricity supply invoices. Individual suppliers may approach the recovery of FIT costs in different ways; they may choose to pass on all the costs to their consumers or only a part. It is charged on a p/kWh basis.
* **Assistance for Areas with High Electricity Distribution Costs (AAHEDC)**: This charge is from a scheme set up to reduce the distribution costs to consumers in rural areas. The scheme currently only supports parts of Northern Scotland. This charge is on a p/kWh basis.
* **Renewables Obligation (RO) Charge**: RO was introduced into the UK in 2002 to encourage the generation of renewable electricity. Energy suppliers are forced to source part of their electricity from renewable resources or be penalized. Suppliers transfer the costs of RO to consumers. RO is charged on a p/kWh basis. It will be replaced by CfD.
* **Contracts for Difference (CfD):** This charge is to support large scale renewable energy, and eventually will replace RO. The scheme is funded by suppliers, with costs passed through to consumers. As further generation enters the CfD scheme, the cost to consumers will increase. CfD is charged on a p/kWh basis.
* **Capacity Market:** The capacity market is being introduced to provide financial incentives to ensure security of supply during time of peak demand. The scheme works through capacity auctions. Capacity market costs will be recovered from suppliers calculated on their market share at peak demand. This charge is in turn passed through to consumers. The capacity market is charged on a p/kWh basis.

**Regulatory Environment**

**Energy policy & laws at the EU / Brussels level impacting UK**

The major policies and laws determined in the European Union which then impacts the electricity market of Poland are summarized below:

* **The third energy package[[7]](#footnote-7):** The package consists of two Directives, one of which is concerning common rules for the internal market in electricity ([Electricity Directive 2009/72/EC](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009L0072)) and three Regulations, 2 of which concern the electricity market: [Electricity Regulation (EC) No 714/2009](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0714) - *conditions for access to the network for cross-border exchange of electricity* and [Regulation (EC) No 713/2009](https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0713) - *the establishment of the Agency for the Cooperation of Energy Regulators (ACER)*.
* **‘Clean energy for all Europeans’ package[[8]](#footnote-8):** The EU has agreed a comprehensive update of its energy policy framework to facilitate the transition away from fossil fuels towards cleaner energy and to deliver on the EU’s Paris Agreement commitments for reducing greenhouse gas emissions.  
  This new energy rulebook is called the Clean energy for all Europeans package and it consists of eight legislative acts, which rules came to force by mid-2019 – hence EU countries have 1-2 years to transpose the new directives into national law[[9]](#footnote-9).
  + Energy Performance of Buildings Directive 2018/844 - It outlines specific measures for the building sector to tackle challenges in reducing their energy consumption and CO2 emissions.
  + The recast Renewable Energy Directive (EU) 2018/2001: With a view to showing global leadership on renewables, the EU has set an ambitious, binding target of 32% for renewable energy sources in the EU’s energy mix by 2030.
  + The revised Energy Efficiency Directive (EU) 2018/2002: Putting energy efficiency first is a key objective in the package, as energy savings are the easiest way of saving money for consumers and for reducing greenhouse gas emissions. The EU has therefore set binding targets of at least 32.5% energy efficiency by 2030, relative to a ‘business as usual’ scenario.
  + Governance of the energy union and climate action (EU) Regulation 2018/1999: Each Member State is required to draft integrated 10-year national energy and climate plans (NECPs) for 2021 to 2030. The NECPs outline how EU countries will achieve their respective targets on all dimensions of the energy union, including a longer-term view towards 2050. The Regulation does not require Member States to introduce any enforcement regime.
  + Electricity Market design: This part of the package seeks to establish a modern design for the EU electricity market, more flexible and market-oriented, compatible with the increasing share of renewables. Four design elements can be highlighted: a new electricity regulation, an amending electricity directive, risk preparedness and a stronger role for ACER.
    - Regulation on the internal market for electricity (EU) 2019/943
    - Directive on common rules for the internal market for electricity (EU) 2019/944
    - Regulation on risk-preparedness in the electricity sector (EU) 2019/941
    - Regulation establishing a European Union Agency for the Cooperation of Energy Regulators (EU) 2019/942

**Energy policy & laws at the country level**

Due to the UK’s position within the EU so far, much of the energy legislation is in line with that of the greater union where it is necessary. Some of the key legislation related to electricity are detailed below.

* **Electricity Act 1989:** The Electricity Act 1989 is the piece of legislation which set the path for the liberalization of the Electricity Market, completed in 1999. The Act also created a market regulator, known as the Office of Electricity Regulation, who would later merge into the current day regulator OFGEM (Office of Gas and Electricity Markets).
* **Utilities Act 2000:** Brought in mainly to update and modify the Electricity Act 1989 after the market liberalization was completed. Required integrated electricity companies to have separate licenses for each of their businesses, such as supply and distribution. This legislation gave the Secretary of State the power to require electricity suppliers to supply a proportion of their sales within the UK from renewable generation. This set up the Renewables Obligation scheme, which came into operation in 2002.
* **Energy White Paper 2007:** This paper was released to outline the Government’s strategy for dealing with carbon emissions in order to combat global warming. Some of the key goals set out in the paper were to cut the UK’s carbon dioxide emissions by 60% by 2050, and the ability to maintain reliable energy supplies in the future. Strengthening the European Union Emission Trading Scheme was one of the key strategic goals outlined in the paper. The Carbon Reduction Commitment (CRC), a mandatory cap and trade scheme for organizations consuming more than 6,000MWh of electricity, was announced.
* **Climate Change Act 2008:** This act from 2008 was a follow on from the Energy White Paper 2007. It set out policy that makes it the duty of the Secretary of State to ensure the UK hits climate change targets set out in the act. The aim is to ensure that the UK net carbon account for all six Kyoto greenhouse gases for the year 2050 is at least 80% lower than the 1990 baseline. The CRC was introduced in Part 3 of the Climate Change Act 2008, which set up the scheme to be introduced via the CRC Energy Efficiency Scheme Order 2010. An independent Committee on Climate Change was also created under the act, whose role is to advise the UK Government on how to meet Climate Change related targets and their related policies.
* **Energy Act 2013:** This act is focused setting decarbonization targets for the UK. The headline aim set in this act is for the retirement of coal-fired power stations, and how to maintain a stable supply of electricity through this period. The act facilitates the building of new nuclear power stations to help with this, and sets up a new regulator, the Office for Nuclear Regulation. The act also legislated for the Energy Market Reform (EMR). The EMR brought in the introduction of two new reforms to the electricity market, the Contracts for Difference (CfD) and the Capacity Market.

**Economic or Energy Efficiency Incentives**

**Energy Efficiency Directives**

2012/27/EU Energy Efficiency Directive:

Article 8 of the European Commission’s Energy Efficiency Directive 2012/27/EU (EED) establishes a set of binding measures to help the EU reach its 20% energy efficiency target by 2020. Therefore, the directive sets mandatory energy assessment and energy saving identification scheme for all Member States of EU.

The UK Government established the Energy Savings Opportunity Scheme (ESOS) (‘The ESOS Regulations 2014’) to implement this mandatory energy assessment scheme for organizations in the UK that meet the qualification criteria. Organizations that qualify for ESOS must carry out ESOS assessments at least every 4 years. These assessments include energy audits of the energy used by their buildings, industrial processes, and transport to identify cost-effective energy saving measures (including those done under the implementation of energy management systems under Article 8(6)). Organizations must notify the Environment Agency (UK administrator of the scheme) by a set deadline that they have complied with their ESOS obligations.

The amending directive (2018/2002)

In 2018, as part of the *Clean energy for all Europeans package[[10]](#footnote-10),* the new amending Directive on Energy Efficiency (2018/2002) was agreed to update the policy framework to 2030 and beyond. Member States have time by 25 June 2020 to transpose into national law, except for metering and billing provisions which has a different deadline (25 October 2020).

[The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015](https://www.legislation.gov.uk/uksi/2015/962/contents/made)

The Regulations set the minimum energy efficiency rating for all private rented properties (domestic and non-domestic) and make it unlawful for properties with an energy performance rating of F or G to be let. Essentially a landlord who rents a property with an EPC rating below an E will be required to undertake work to improve its energy performance.

**EII Exemptions or Rebates**

The following list of exemptions or rebates were identified in relation to the distribution & transmission charges, indirect emissions costs, and power related taxes:

* ***EII certificate for an exemption from the indirect costs of funding the CFD, RO and FIT[[11]](#footnote-11)*** *-*The UK government has developed exemption and compensation schemes[[12]](#footnote-12), approved by the European Commission as compatible state aid, to address the risk of putting certain electricity-intensive businesses at a significant competitive disadvantage.

There is a two-level assessment process for determining eligibility. The criteria are the same for all of these exemption schemes (Contracts for Difference, Renewables Obligation, Feed-in-Tariff).

1. Sector-level test – Products should be manufactured in the UK within an eligible sector (defined by a 4-digit NACE Code)
2. Business-level test - The business must pass a 20% electricity intensity test; businesses will need to show that their electricity costs amount to 20% or more of their Gross Value Added (GVA) over a reference period – the “relevant period”

Once the eligibility criteria are passed, businesses will be issued with an EII certificate which will need to be renewed annually.

In accordance with the EEAG[[13]](#footnote-13) the aid intensity will be up to 85% of the indirect costs of funding the CFD, RO and FIT exemption schemes.

* **Exemption from Climate Change Levy** -A reduction is available on the main rates of CCL for energy intensive businesses who have entered into a climate change agreement (CCA)[[14]](#footnote-14) with the Environment Agency. Energy intensive businesses can get a 90% reduction for electricity and a 65% reduction for gas, liquefied petroleum gas (LPG), coal and other solid fuel.

1. Based on recent energy trends as published on <https://www.gov.uk/government/statistics/electricity-section-5-energy-trends> [↑](#footnote-ref-1)
2. Based on recent energy trends as published on <https://www.gov.uk/government/statistics/electricity-section-5-energy-trends> [↑](#footnote-ref-2)
3. Source: *Brexit Factsheet* - Cornwall Insight (Considerations for the energy sector) [↑](#footnote-ref-3)
4. *Note*: The Electricity Capacity Regulations 2014 established a Capacity Market designed to ensure that enough electrical capacity is available to ensure security of electricity supply. [↑](#footnote-ref-4)
5. Please see also: <https://www.ofgem.gov.uk/electricity/transmission-networks/charging/targeted-charging-review-significant-code-review> [↑](#footnote-ref-5)
6. The UK is split into 14 different transmission charging zones. [↑](#footnote-ref-6)
7. <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation/third-energy-package> [↑](#footnote-ref-7)
8. <https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans> [↑](#footnote-ref-8)
9. The UK has not yet published – as of today - any official statement on how Brexit will impact their compliance with basic principles of the package, let alone any potential implementation process. Please see further: *1.4 Future Market Developments* [↑](#footnote-ref-9)
10. Please see also page 8. [↑](#footnote-ref-10)
11. Please see also guidance document: <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/831384/CFD_RO_FIT_Exemption_Guidance_Revised_Sept_2019.pdf> [↑](#footnote-ref-11)
12. Legislation: [www.legislation.gov.uk/uksi/2015/721/contents/made](http://www.legislation.gov.uk/uksi/2015/721/contents/made); [www.legislation.gov.uk/uksi/2017/1051/contents/made](http://www.legislation.gov.uk/uksi/2017/1051/contents/made) ; [www.legislation.gov.uk/uksi/2017/1289/contents/made](http://www.legislation.gov.uk/uksi/2017/1289/contents/made); [www.gov.uk/government/publications/renewables-obligation-level-calculations-201819](http://www.gov.uk/government/publications/renewables-obligation-level-calculations-201819) [↑](#footnote-ref-12)
13. The European Commission provided framework guidance to EU Member States through the Guidelines on State aid for environmental protection and energy 2014-2020, referred to as EEAG: 2 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628(01)> [↑](#footnote-ref-13)
14. Please see more on: <https://www.gov.uk/guidance/climate-change-agreements--2> [↑](#footnote-ref-14)