

Supplementary Information: Updated figures to accompany the Impact Assessment

Revised Impact of an EII Exemption from Indirect CFD Costs on Electricity Bills

1. The consultation outlined modifications to the Contracts for Difference (CFD) exemption scheme for energy intensive industries (EIIs). These modifications do not change the background, rationale or objectives of the policy. There has also been no update to the overall value for money case of the policy. The original Impact Assessment for the CFD exemption can be found here¹.
2. This annex updates the best estimate of the impact of the CFD exemption on electricity bills using the latest data available. Under the exemption, eligible businesses will receive up to an 85% exemption from the indirect cost of funding CFDs. Eligible businesses belong to a sector identified as energy intensive and trade intensive, and pass a business level test which demonstrates their electricity costs meet or exceed 20% of Gross Value Added.
3. The bill impact calculations use CFD strike prices (£/MWh) and wholesale prices consistent with the Environmental Levies published in the OBR Economic and Fiscal Outlook November 2016, total electricity demand and illustrative electricity usage (MWh) by different consumer groups. BEIS's (2016) internal estimate of 12TWh per year of eligible electricity was used to calculate the total cost of the exemption which was then spread over all non-exempt electricity users. The counterfactual assumes no exemption so all electricity consumers would pay the same cost per MWh to indirectly fund CFDs.
4. The exemption for EIIs will increase bills for other consumers and is detailed in table 1 below, which provides illustrative examples of the annual impact of the CFD exemption on electricity bills for domestic and non-domestic sectors. These figures are based on the latest available data, and show that the estimated annual impact of the CFD exemption on bills has decreased since July 2016, when the consultation document was published.

¹ [https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358163/ANNEX_B - Impact Assessment - Eligibility for an exemption from the cost.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358163/ANNEX_B_-_Impact_Assessment_-_Eligibility_for_an_exemption_from_the_cost.pdf)

5. **Table 1: Annual Impact of CFD Exemption on Electricity Bills (2016 prices)**

Year	Households excl VAT	Business - medium energy user²	Illustrative Non-exempt EII³	Illustrative Exempt EII⁴
2017/18	£0 (+0.1%)	£900 (+0.1%)	£8,000 (+0.1%)	-£200,000
2018/19	£1 (+0.1%)	£1,600 (+0.1%)	£15,000 (+0.2%)	-£350,000
2019/20	£1 (+0.1%)	£2,300 (+0.2%)	£22,000 (+0.2%)	-£500,000
2020/21	£1 (+0.2%)	£3,200 (+0.3%)	£30,000 (+0.3%)	-£680,000
2021/22	£1 (+0.2%)	£3,300 (+0.3%)	£31,000 (+0.3%)	-£710,000
2022/23	£1 (+0.2%)	£3,300 (+0.3%)	£31,000 (+0.3%)	-£700,000
2023/24	£1 (+0.2%)	£3,100 (+0.2%)	£29,000 (+0.3%)	-£670,000

Note: Figures in brackets represent the CFD exemption as a proportion of the illustrative users' estimated electricity bill

6. The actual cost in future years, of both CFD payments and the exemption, are dependent on a number of variables including: wholesale prices, the actual investment attracted into new generation capacity, electricity demand and the final scope of eligible businesses.

² An illustrative business medium energy user has an assumed electricity consumption of 11,000MWh per year

³ An illustrative EII has an assumed electricity consumption of 100,000MWh per year but EII consumption varies significantly from 2,000,000MWh per year to 2000MWh per year

⁴ An illustrative EII has an assumed electricity consumption of 100,000MWh per year but EII consumption varies significantly from 2,000,000MWh per year to 2000MWh per year