

To: All CHPQA Accredited
Stations & Suppliers who use
CHP LECs

*Promoting choice and value for
all gas and electricity customers*

Direct Dial: 020 7901 7310
Email: Renewable@ofgem.gov.uk

Date: 26 March 2013

Dear Sir/Madam,

Climate Change Levy exemption for indirect supplies of good quality Combined Heat and Power

Background

1.1 The Climate Change Levy (CCL) is a tax on UK business energy¹ use, charged at the time of supply. Ofgem administers two of the exemptions from CCL on behalf of HM Revenue and Customs (HMRC). These are the exemption for indirect supplies of good quality combined heat and power (CHP) electricity and the exemption for renewable source electricity. We issue one Levy Exemption Certificate (LEC) for each megawatt hour of eligible generation from a station accredited under the CHP Quality Assurance (CHPQA) Standard. Suppliers redeem LECs via Ofgem's Renewables and CHP Register as evidence of exempt supplies of electricity from HMRC. Full information about how these exemptions are administered is available on the Ofgem website www.ofgem.gov.uk.

1.2 Following a HM Treasury and HMRC consultation on the introduction of a Carbon Floor Price², Budget 2011³ announced the Government's intention to remove the CCL exemption for indirect supplies of good quality CHP electricity with the expiry of its state aid approval. Full information on the removal of the exemption was provided with the consultation on draft legislation for the Finance Bill 2012⁴. Amendments to the primary and secondary legislation governing the exemption⁵ have come into force with the following effects:

- March 2013 is the last month of generation eligible for CHP LECs.
- The last CHP LEC reconciliation will be performed for good quality CHP electricity generated during the reconciliation span 1 January 2012 to 31 March 2013, or to the date when the station Secretary of State Exemption Certificate is revoked where this is before 31 March 2013. In difference to the normal procedure, where reconciliation identifies that too many CHP LECs have been issued, these will not be withheld from future generation.

¹ Electricity, gas, liquid petroleum gas and solid fuel

² HM Treasury and HM Revenue & Customs, (December 2010), *Carbon price floor: support and certainty for low-carbon investment*; HM Treasury and HM Revenue & Customs, (March 2011), *Carbon price floor consultation: the Government response*

³ HM Treasury, *Budget 2011*, (March 2011), Para 2.142

⁴ HM Treasury, *Consultation on draft legislation for Finance Bill 2012 – Indirect tax – Climate Change Levy: electricity produced in combined heat and power stations*, http://www.hm-treasury.gov.uk/finance_bill_2012_consultation.htm and *Carbon Price Floor: Additional Legislative Provisions*, http://www.hm-treasury.gov.uk/d/carbon_price_support_rates.pdf, (6 December 2011)

⁵ *The Finance Act 2012* (c.14) Schedule 32, Part 3; and *The Climate Change Levy (General) (Amendment) (No. 2) Regulations 2012*, SI No. 2012/304

- Exempt good quality CHP electricity must be supplied before 1 April 2018.
- The exemptions for self and direct supplies of good quality CHP administered directly by HMRC and renewable source electricity administered by Ofgem are not affected.

Information for CHP generators and suppliers

2.1 Set out below is a summary of the administrative processes that are required for the closure of the CHP LEC scheme. Full information on how the scheme operates is provided in the *Climate Change Levy exemption for CHP: Guidance for exporting 'good quality' CHP generators & suppliers (April 2008)* available from the Ofgem website, www.ofgem.gov.uk. Please note, the deadlines highlighted in bold within the information below are administrative only.

CHPQA records

2.2 With effect from 1 April 2013, all our records will have a status of 'withdrawn' to show that stations are no longer eligible to receive CHP LECs from Ofgem.

2.3 For those stations with CHPQA accreditation not currently receiving CHP LECs for generation before 1 April 2013, but wish to do so, please inform CHPQA and they will forward your details to us. Please contact us before **30 June 2013** so that we can follow this up with CHPQA and issue any CHP LECs that forms part of the 2013 reconciliation round. When contacting us please provide details of your CHPQA reference number and Renewables and CHP Register generator account ID so that we can link the CHPQA accreditation record to your account.

Issuing CHP LECs

2.4 March 2013 is the last month of generation eligible for CHP LECs. These CHP LECs should be issued by the end of June 2013. With the exception of CHP LEC reconciliation, if you have not received all expected CHP LECs by **30 June 2013** please contact us providing details of your CHPQA reference number and months you have not received CHP LECs so we can investigate.

CHP LEC reconciliation

2.5 The last annual CHP LEC reconciliation will be performed during summer 2013 for the generation period 1 January 2012 to 31 March 2013, or to the date when the station's Secretary of State Exemption Certificate is revoked where this is before 31 March 2013. This will be performed using the Qualifying Power Output (QPO) and Total Power Output (TPO) ratio stated in the station's 2013 CHPQA Exemption Certificate. Any requests for late or amended data to be considered within reconciliation should be made to Ofgem by **30 June 2013**. Please refer to the *Climate Change Levy exemption for CHP: Guidance for exporting 'good quality' CHP generators & suppliers* for full details on the reconciliation process.

2.6 Please note, since reconciliation will be performed in 2013 for the last time, over issued CHP LECs will not be withheld on future generation. We will not perform a further reconciliation of electricity generated between the periods 1 January to 31 March 2013 based on the 2014 CHPQA Exemption Certificate. Instead, for electricity generated between these periods generators will undertake reconciliation themselves in 2014 once they receive their 2014 CHPQA Exemption Certificate by following the guidance for non-exporting stations to be provided by HMRC in April 2013⁶.

⁶ HMRC will publish an updated notice CCL1/2 Combined Heat and Power in April 2013.

Transferring and redeeming CHP LECs

2.7 Functionality to transfer and redeem CHP LECs on the Renewables and CHP Register will remain until 31 March 2018 in line with the legislative deadline for supplies of exempt good quality CHP electricity. Certificate reports within accounts will show details of all CHP LECs held which will enable suppliers to monitor stocks of CHP LECs. This information will also be made available to HMRC.

Contacts and further information

3.1 For further information about the CCL exemption for indirect supplies of good quality CHP electricity, exemption for renewable source electricity or the Renewables and CHP Register please refer to the information sources listed below and general information published on the Ofgem website www.ofgem.gov.uk:

- *Climate Change Levy exemption for CHP: Guidance for exporting 'good quality' CHP generators & suppliers* (April 2008)
- *Climate Change Levy exemption for Renewables: Guidance for generators and suppliers* (November 2008)
- *Renewables and CHP Register User Guide* (1 April 2008), and subsequent updates

3.2 If you have questions about the administration of the CCL exemption for indirect supplies of good quality CHP or renewable source electricity please contact Ofgem's Renewables and CHP team by email to Renewable@ofgem.gov.uk or phone on 020-7901-7310.

3.3 If you have questions about the legislation governing the CCL exemptions, the decision to close the CHP LEC scheme or how to obtain the exemption for direct or self supplies of good quality CHP electricity please contact HMRC's Climate Change Levy team by phone on 0845 010 9000 or view their website, www.hmrc.gov.uk.

3.4 If you have questions about your CHPQA accreditation, please contact CHPQA by phone on 0870 190 6196 or view their website, <http://chpqa.decc.gov.uk/>.

Yours sincerely

Richard Bellingham
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