HM Revenue
& Customs

Carbon price floor: reform and other technical amendments

Who is likely to be affected?

UK generators of fossil-fuel based electricity, including combined heat and power operators and auto generators; those supplying such generators and electricity utilities.

General description of the measure

The Government is announcing reform of the carbon price floor (CPF). The carbon price support (CPS) rate per tonne of carbon dioxide (tCO_2) - the UK-only element of the CPF - will be capped at a maximum of £18 from 2016-17 until 2019-20. This will effectively freeze the CPS rates for each of the individual taxable commodities across this period at around 2015-16 levels.

The CPS rates for individual commodities for 2016-17 and indicative individual commodity rates for 2017-18 and 2018-19, reflecting this reform, are shown in the following table. The indicative rates are shown on the basis that £18 is the maximum CPS rate per tCO_2, and is expected to be in force in these years.

	Confirmed rates	Indicative rates	
	2016-17	**2017-18**	**2018-19**
CPS rate per tCO2	18.00	18.00 maximum	18.00 maximum
Supplies of commodity liable to CPS rates of climate change levy (CCL)			
Natural gas (£ per kilowatt hour)	0.00331	0.00331	0.00331
Liquefied petroleum gas (LPG) (£ per kilogram)	0.05280	0.05280	0.05280
Coal and other taxable solid fossil fuels (£ per gross gigajoule)	1.54790	1.54790	1.54790
Supplies of commodity liable to CPS rates of fuel duty			
Gas oil; rebated bioblend; kerosene (£ per litre)	0.04916	0.04916	0.04916
Fuel oil; other heavy oil; rebated light oil (£ per litre)	0.05711	0.05711	0.05711

Policy objective

The CPF which came into effect on 1 April 2013 is made up of the price of CO_2 from the EU Emissions Trading System (EU ETS) and the CPS rate per tCO_2 which is the UK-only additional tCO_2 emitted in the power sector. This CPS rate per tCO_2 is used as the basis for setting individual CPS rates for each of the taxable commodities. The CPS rates of CCL apply to fossil fuels used in electricity generation that are taxed under the CCL regime (gas, solid fuels and LPG). The CPS rates of fuel duty apply to oils and bioblends used in electricity generation.

The CPF is designed to provide an incentive to invest in low-carbon power generation. The current CPF trajectory reaches £30/tCO_2 in 2009 prices by 2020. However, EU ETS carbon prices are now substantially lower than was expected when the CPF was introduced. If kept in place, the current CPF trajectory would cause a large and increasing gap between the carbon price faced by UK energy users and those faced abroad. This would result in UK firms facing significantly higher energy prices than those of competitors abroad, and raise energy bills for households.

This measure caps the UK-only element of the CPF at £18 per tCO_2 from 2016-17 until 2019-20 to support UK business competitiveness and helps to restrain increases in household energy bills, while still maintaining the incentive to invest in low-carbon generation.

Background to the measure

The Government announced at Budget 2011 that the CPF would be introduced on 1 April 2013. In order to provide certainty, it made clear that CPS rates would be announced and legislated for two years in advance and that indicative rates would be announced for two further years. CPS rates for individual commodities liable to CCL are set out each year in the Finance Act, and CPS rates for individual oils / bioblends liable for fuel duty are set out in secondary legislation.

Budget 2013 announced that the CPF would not apply in Northern Ireland, confirmed the CPS rates for 2013-14 and 2014-15 and announced the CPS rates for 2015-16. It also announced updated indicative rates for 2016-17 and new indicative rates for 2017-18.

The CPF was introduced on schedule on 1 April 2013. Although it is a new tax in terms of its implementation in Great Britain, the trajectory and impacts on business competitiveness have been considered since it was announced in 2011 and there has been extensive consultation with industry and other stakeholders both before and after the implementation of the tax.

Draft Finance Bill legislation was published on 10 December 2013 setting out a revised CPS rate for coal and other taxable solid fossil fuels for both 2014-15 and 2015-16.

Detailed proposal

Operative date

Carbon price floor reform

The revised individual CPS rates for individual commodities for 2016-17 will come into force on 1 April 2016 reflecting the reform of the CPF.

Other amendments

As announced at Budget 2013 (or Autumn Statement 2013 in the case of coal and other solid fossil fuels) the CPS rates of CCL and fuel duty for 2014-15 and 2015-16 will come into force on 1 April 2014 and 1 April 2015 respectively. Duty paid kerosene used to generate electricity will become a taxable CPS commodity from 1 May 2014.

Current legislation

Schedule 6 to Finance Act 2000 (Schedule 6) contains CCL's primary legislation. Schedule 6 was amended by section 200 of and Schedule 42 to Finance Act 2013 to provide for the CPF provisions in respect of fuels liable to CCL. Paragraph 42A sets out the CPS rates applicable to the relevant taxable commodities.

The Hydrocarbon Oil Duties (Reliefs for Electricity Generation) Regulations 2005 (SI 2005/3320) (the 2005 regulations) enable generators who use oil to generate electricity to reclaim the fuel duty paid on the oil when it leaves the refinery. These regulations were amended by the Hydrocarbon Oil Duties (Reliefs for Electricity Generation) (Amendment) Regulations 2013 to adjust the amount of fuel duty that can be reclaimed by those generating electricity using oils, in effect creating CPS rates of fuel duty.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to amend paragraph 42A of Schedule 6. It will set the CPS rates of CCL for all fossil fuels (excluding oils) used in electricity generation for 2016-17 and amend the previously legislated CPS rate for coal and other solid fossil fuels for 2014-15 and 2015-16.

Secondary legislation will be introduced to amend the 2005 regulations to adjust the amount of relief from excise duty available on heavy and light oils used to generate electricity to reflect the CPS rates of fuel duty in 2016-17. It will also provide for duty paid kerosene used to generate electricity to become a taxable CPS commodity.

Following these changes the CPS rates for 2014-15, 2015-16 and 2016-17 will be:

Supplies of commodity liable to:	**2014-15**	**2015-16**	**2016-17**
CPS rates of CCL			
Natural gas (£ per kilowatt hour)	0.00175	0.00334	0.00331
LPG (£ per kilogram)	0.02822	0.05307	0.05280
Coal and other taxable solid fossil fuels (£ per gross gigajoule)	0.81906	1.56860	1.54790
CPS rates of fuel duty			
Gas oil; rebated bioblend; kerosene (£ per litre)	0.02642*	0.04990	0.04916
Fuel oil; other heavy oil; rebated light oil (£ per litre)	0.03011	0.05730	0.05711

* from 1 May 2014 in case of kerosene only

Table of impacts – carbon price floor: reform

Exchequer impact (£m)		2014-15	2015-16	2016-17	2017-18	2018-19
	Cap CPS rate at £18 tCO_2 between 2016-17 and 2019-20	-	-	-340	-615	-870
	The figures for the Budget 2014 element are set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.					
Economic impact	This measure is expected to restrain energy bills for businesses, and to improve the international competitiveness of UK firms with respect to competitors. The impact will be greatest in business sectors where energy bills are a high proportion of costs. This measure is estimated to reduce business energy costs by up to £4 billion by 2018-19.					
Impact on individuals and households	Compared with current policy, this measure will reduce domestic electricity bills from 2016-17 onwards. The average annual household bill is expected to fall by £15 in 2018-19.					
Equalities impacts	The changes are not expected to have any impact on any equalities group.					

Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses. Major power producers will incur a one-off negligible cost of familiarising themselves with the new CPF trajectory. This will affect approximately 150 firms. There will be no change in how the CPF is administered, or in the population of firms paying CPF charges. This measure is expected to have no impact on the administrative burden of civil society organisations.
Operational impact (£m) (HMRC or other)	There will be no significant costs or savings for HMRC as a result of these changes.
Other impacts	Carbon assessment: the measure rebalances CPF policy to provide more support to UK business competitiveness and helps to restrain increases in household energy bills, while still giving an incentive to invest in low carbon electricity generation. The measure is not expected to impact upon security of supply. The cap on CPS rates will have no impact on the maximum allowable CO_2 emissions at a European level. The EU ETS specifies a hard limit on CO_2 emissions across the EU and changing the CPF does not affect this limit. Other impacts have been considered and none have been identified.

Monitoring and evaluation

This measure will be monitored through information collected from tax returns and receipts, and through regular communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Tim Smith on 03000 585475 (email: timothy.smith@hmrc.gsi.gov.uk).