



Department for
Business, Energy
& Industrial Strategy

Consultation on a Green Gas Levy

Closing date: 2 November 2020



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Any enquiries regarding this publication should be sent to us at: gglconsultation@beis.gov.uk

Introduction

The UK is the first major economy in the world to set a legally binding target to achieve net zero greenhouse gas emissions by 2050. We have already made progress towards this goal: emissions from buildings have fallen by 20% between 1990 and 2017.¹ Currently, heating our homes, businesses, and industry is responsible for a third of the UK's greenhouse gas emissions.² Decarbonisation of heat is recognised as one of the biggest challenges we face in meeting our climate targets.

The UK also faces the huge challenge of the COVID-19 pandemic and the wide range of impacts this is having on the economy and citizens. The government is committed to the UK's recovery, with decarbonisation being an important opportunity to help support the effort. For example, the Chancellor announced a £3 billion green investment package in July 2020 that could help support around 140,000 green jobs and upgrade buildings and reduce emissions.

Earlier in the year, in April, the government published a consultation on 'Future Support for Low Carbon Heat'.³ This set out proposals for a new Green Gas Support Scheme to increase the proportion of green gas in the grid, through support for biomethane injection. It also set out proposals for a Clean Heat Grant scheme to follow on from the Renewable Heat Incentive, to help deliver the phase-out of high carbon fossil fuel heating. The 'Future Support for Low Carbon Heat' consultation has now closed, and we are analysing responses. The government response is expected to be published this winter.

The Green Gas Levy was announced at the March 2020 Budget and will be the funding source for the Green Gas Support Scheme mentioned above. They are both expected to launch in autumn 2021, while the first levy collection is intended to be in April 2022. This support for the biomethane sector will lead to carbon savings of 21.6MtCO₂e over the lifetime of the scheme. It will also help to boost green jobs by maintaining and building growth in the biomethane industry at a time when economic recovery will be very important. The 'Future Support for Low Carbon Heat' consultation and Impact Assessment provide more detail on the benefits of supporting biomethane injection.

This 'Consultation on a Green Gas Levy' sets out proposals for the new levy to be placed on licensed gas suppliers. We anticipate that suppliers will pass the costs of the levy onto gas bill payers in the domestic and non-domestic sectors. Given that the benefits of decarbonisation through green gas injection will be shared by all users of the gas grid, it is considered appropriate for gas users to fund the next stage of this transition.

We expect bill additions to be relatively minor, estimated to peak at around £6.90 on an annual gas bill according to our current analysis. It should be noted that all references in this consultation to bill impact amounts are current estimates and will be subject to decisions made on the Green Gas Support Scheme following the 'Future Support for Low Carbon Heat' consultation, as well as on this consultation. We are committed to ensuring the impact on bills

¹ Defra (2019) [Leading on clean growth: government response to the Committee on Climate Change 2019 progress report to Parliament - Reducing UK emissions](#) (This only includes non-traded emissions; it does not include electricity)

² BEIS (2018) [Heat decarbonisation: overview of current evidence base](#), Fig.2.1:

³ BEIS (2020) [Future Support for Low Carbon Heat](#)

is as low as possible. We will implement a robust control framework that includes an annual budget cap to ensure impacts on bills do not rise unexpectedly.

The levy design proposals aim to minimise administrative burden on all parties wherever possible and take account of lessons learnt from other decarbonisation levy schemes.

The policy proposals set out in this consultation form part of a wide package of work related to the decarbonisation of heat. This includes the Heat and Buildings Strategy, to be published later this year, which will set out the immediate actions we will take for reducing emissions from buildings. This will include energy efficiency measures and low-carbon heating as part of an ambitious programme of work required to enable key strategic decisions on how we achieve the mass transition to low carbon heat.

The government has also committed to the ‘Net Zero Review’, which is a review into funding the transition to a net zero greenhouse gas economy and how the UK can maximise economic growth opportunities from this transition.⁴ In addition to the wide range of benefits expected from the transition, further costs are also likely, and we will need to consider how those costs will be funded and where they will fall. A priority for the Net Zero Review is to ensure a fair balance of contributions from all those who will benefit, including considering how to reduce costs for low income households.

We recognise that recent months have been a very challenging time for businesses in this sector due to COVID-19 and we are keen to understand how the Green Gas Levy can be successfully implemented while taking account of these recent challenges and their impacts. We welcome views from stakeholders with an interest including small, medium, and large gas suppliers. We also recognise that some consumers and businesses have had difficulty with paying their energy bills in recent months, and we are keen to hear from organisations representing those who will be impacted through the additions to gas bills. There is also a section on ‘Backdated payments’ regarding initial payments on the Green Gas Support Scheme, to which we would welcome views from the biomethane industry.

We will continue to monitor the impacts of the COVID-19 situation on gas suppliers and gas billpayers throughout the development of this policy.

⁴ HMT (2019) HM Treasury’s review into funding the transition to a net zero greenhouse gas economy: terms of reference: <https://www.gov.uk/government/publications/net-zero-review-terms-of-reference/hm-treasurys-review-into-funding-the-transition-to-a-net-zero-greenhouse-gas-economy-terms-of-reference>

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General information

Why we are consulting

To set out policy proposals and invite stakeholder views relating to the Green Gas Levy. This will ensure that proposals can be fully tested and refined where appropriate.

Consultation details

Issued: 22 September 2020

Respond by: 2 November 2020

Enquiries to: Green Gas Levy Team, Department for Business, Energy and Industrial Strategy.

Please do not send responses by post to the department, as we may not be able to access them during altered working arrangements as a result of the COVID-19 pandemic.

Email: gglconsultation@beis.gov.uk

Consultation reference: Consultation on a Green Gas Levy

Audiences:

The consultation will be of particular importance to licensed gas suppliers and also those with an interest in energy bill impacts. It will also be of interest to stakeholders in the biomethane industry, as well as those with a wider interest in the UK's net zero ambition.

Territorial extent:

The consultation is for England, Scotland, and Wales. It does not include Northern Ireland.

How to respond

We encourage respondents to make use of the online e-Consultation platform, Citizen Space, to respond to this consultation wherever possible. This is the department's preferred method of receiving responses. However, responses submitted by email will be accepted. If responding by email, please use the email template found on the GOV.UK consultation page.

Respond online at: <https://beisgovuk.citizenspace.com/heat/green-gas-levy>

or

Email to: gglconsultation@beis.gov.uk

Please do not send responses by post to the department, as we may not be able to access them during altered working arrangements as a result of the COVID-19 pandemic.

A response form is available on the GOV.UK consultation page:
<https://www.gov.uk/government/consultations/green-gas-levy>

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

Data and responses may be processed by a third party contracted by BEIS.

Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: beis.bru@beis.gov.uk.

Executive summary

In this consultation, we set out proposals for a Green Gas Levy to be placed on licensed gas suppliers to fund biomethane injection into the gas grid, through the Green Gas Support Scheme. This follows proposals set out for a Green Gas Support Scheme in the ‘Future Support for Low Carbon Heat’ consultation that ran from April to July 2020.⁵ The Green Gas Levy is expected to launch in autumn 2021, with the first levy payment from suppliers being collected in April 2022. Levy payments will be collected for the duration of Green Gas Support Scheme tariff payments.

The Green Gas Levy proposals will apply to England, Scotland, and Wales. We are working closely with the devolved administrations during the development of these proposals.

The government intends to review and evaluate this policy during its implementation to ensure it is meeting its objectives and achieving value for money.

The consultation sets out a number of proposals in relation to the Green Gas Levy design; budget control and financial management of the levy; administration, compliance and enforcement; backdated payments for biomethane producers; and a future transition to a volumetric based levy.

Green Gas Levy design

In this section, we set out that the Green Gas Levy is intended to apply to all licensed gas suppliers. We propose that the levy costs are split across suppliers according to the number of meter points they serve, with each meter point incurring the same charge regardless of gas consumption or meter type.

We set out how we propose to calculate the levy and the relevant timings for this. We also set out our proposal that levy payments be made quarterly and ask for views on whether the notice period is appropriate ahead of the first levy payment collection, which is intended to be in April 2022.

As part of suppliers’ obligations to make levy payments, we propose that credit cover is provided by all suppliers, to help ensure all levy payments can be collected on time. We set out proposed options for how this can be secured and ask for views on this.

We explain alternative levy design options that have been considered. This includes the options explored to reduce costs for low-gas users under the per meter point approach.

The government is mindful of the benefits of future policy costs on gas bills being more closely aligned to gas consumption, so that the amount gas users pay is proportional to the amount of gas they use. It is the government’s intention to transition to a volumetric levy in 2024/25, or as soon as possible thereafter, subject to the current feasibility challenges being overcome. The policy design will need to avoid distortive effects and disproportionate burdens on market

⁵ BEIS (2020) [Future Support for Low Carbon Heat](#)

participants and maximise fairness for consumers. Any changes to the levy design would be subject to a public consultation.

Finally, we set out the expected impacts on domestic and non-domestic bills and the wider government action in this space.

Budget control and financial management of the levy

A robust cost control framework is a priority in the design of the Green Gas Levy. In this section, we set out the mechanisms which will help to control costs on the Green Gas Levy. This includes budget caps for tariff guarantees and overall annual budget caps on the Green Gas Support Scheme, as well as our intention to publish the maximum amount that the levy could collect in any one year or a maximum possible levy rate.

We explain the financial flows related to the levy, including how forecasts of spend on the Green Gas Support Scheme will be used and how the quarterly payment process works.

Backdating payments

The Green Gas Support Scheme is expected to launch in autumn 2021, but we do not expect the first levy payments to be made by gas suppliers until April 2022. We invite views on our proposals to backdate payments for eligible biomethane injected during this gap in levy funding being available, in order to avoid a hiatus in deployment. We encourage views from the biomethane industry in particular on this.

Administration, compliance, and enforcement

This section sets out that Ofgem will be the administrator for the Green Gas Levy, building on their experience of delivering other supplier obligation schemes. They are also intended to be the administrator for the Green Gas Support Scheme, as set out in the 'Future Support for Low Carbon Heat' consultation.

We set out expectations regarding supplier compliance and the powers that Ofgem will have to help manage compliance. This section also sets out the enforcement powers that we intend for Ofgem to have.

We propose that Ofgem will have the power to run a mutualisation exercise for instances where any suppliers have not paid their required levy payments and not provided sufficient credit cover. This is a process where the shortfall would be recovered by the non-defaulting suppliers. We also set out the intention for Ofgem to be able to report on any non-compliances by suppliers, as well as report any enforcement action taken. In addition, we propose that interest will be payable on late payments.

The proposals

In the March 2020 Budget, it was announced that the government would introduce a Green Gas Levy to fund a new support scheme for biomethane injection into the gas grid. On 28 April 2020, the government launched the 'Future Support for Low Carbon Heat' consultation.⁶ This set out proposals for the Green Gas Support Scheme, in which it was noted that a consultation on the Green Gas Levy would be published in due course.

In this consultation, we set out our proposals for the design and administration of the Green Gas Levy, as well as the intended compliance and enforcement powers. We also address how we intend to fund the transition from the launch of the Green Gas Support Scheme in autumn 2021 to the first collection of the Green Gas Levy, which we anticipate happening in April 2022.

The Green Gas Support Scheme is expected to open to new applications in autumn 2021 and run until autumn 2025, when the scheme will close to new applications. It is important to launch the scheme in autumn 2021 to avoid a hiatus in biomethane deployment that could lead to lost carbon savings, as well as job losses and damage to the UK biomethane industry. We modelled supporting biomethane through a 15-year tariff in the 'Future Support for Low Carbon Heat' consultation and asked for views on this, as well as on 10-12 year tariffs. With a 15-year tariff, the levy would continue to be collected to finance this until autumn 2040. A decision on tariff length will be included in the government response. That consultation also discussed possible support for green gas beyond the Green Gas Support Scheme and asked for views on the role that market-based mechanisms could play to support green gas options in the future.

⁶ BEIS (2020) [Future Support for Low Carbon Heat](#)

A levy on gas suppliers to support green gas

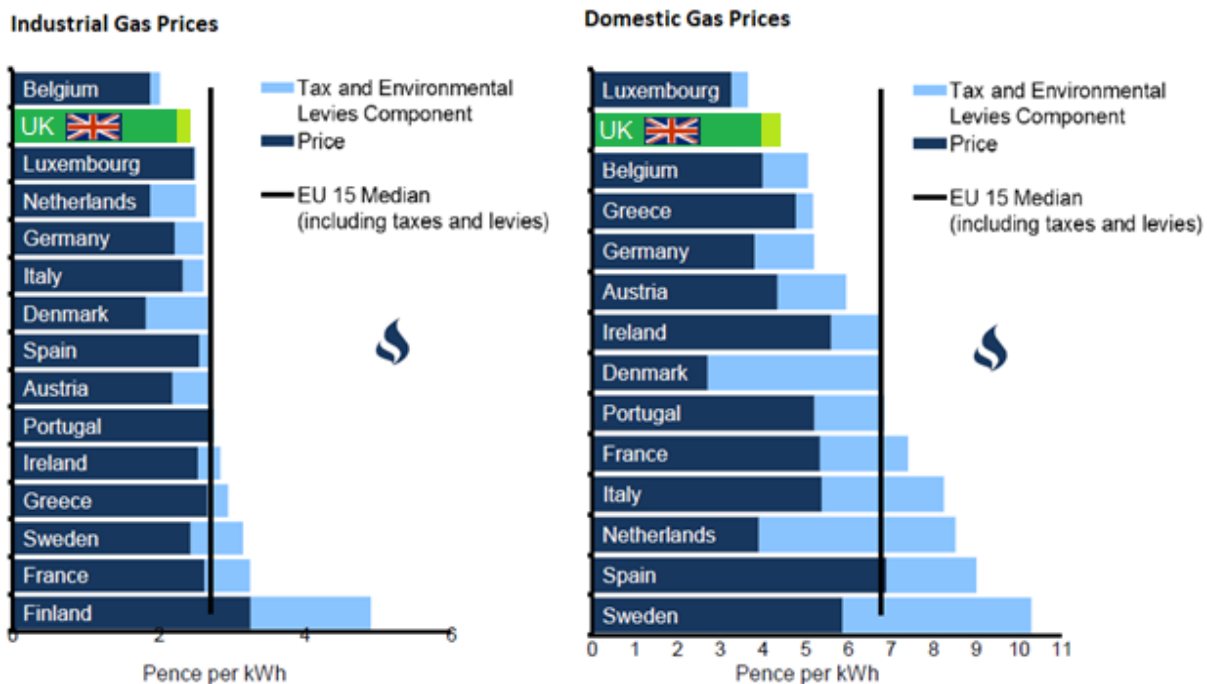
To meet our legally binding emissions reductions targets, we need to move away from burning fossil fuels to heat our buildings. Biomethane injection into the gas grid accelerates the decarbonisation of gas supplies, by increasing the proportion of green gas in the grid. This transition is a necessary step towards meeting our carbon reduction targets, including the UK’s net zero greenhouse gas emissions target by 2050.

As set out in the ‘Future Support for Low Carbon Heat’ consultation, the Green Gas Support Scheme will drive increasing proportions of green gas in the grid and the resulting reduction in emissions will benefit all gas users and society more widely. We expect that the scheme will contribute 9.7MtCO₂e of carbon savings over Carbon Budgets 4 and 5, and 21.6MtCO₂e of carbon savings over its lifetime, subject to final policy decisions following consultation. It will also help support the longer-term decarbonisation of the heating sector, through developing supply chains and reducing costs. This will have benefits across the economy and serve to reduce our dependence on burning natural gas to heat our homes. That consultation has now closed, and we are currently analysing responses; we intend to publish a government response this winter.

We are proposing to fund the Green Gas Support Scheme by imposing a levy on gas suppliers, to support eligible biomethane injection, with the anticipated passing on of costs meaning that gas users will pay for the costs of decarbonising the gas grid.

Consideration of gas prices for consumers and of policy costs have helped to inform our approach. Currently, UK industrial and domestic gas prices are relatively competitive. As shown in Figure 1, they are the second lowest when compared to countries in the EU15.

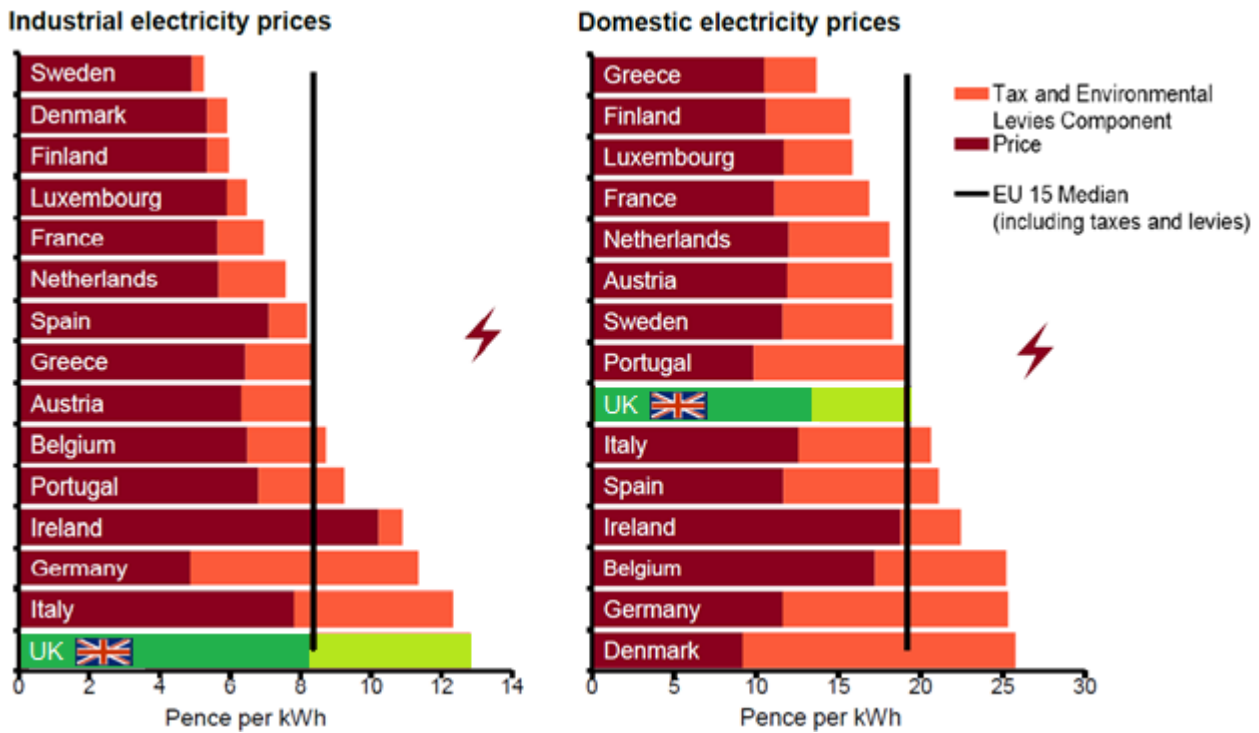
Figure 1: Industrial and Domestic Gas Prices (UK and EU15) July-December 2019⁷



⁷ BEIS (2020) Quarterly Energy Prices: June 2020: <https://www.gov.uk/government/statistics/quarterly-energy-prices-june-2020>

In addition, as can be seen in Figure 2, costs imposed by energy and climate policies in the UK are proportionally higher for electricity than gas, for both industrial and domestic customers.

Figure 2: Industrial and Domestic Electricity Prices (UK and EU15), July-December 2019⁸



⁸ BEIS (2020) Quarterly Energy Prices: June 2020: <https://www.gov.uk/government/statistics/quarterly-energy-prices-june-2020>

Scope of the levy

The Energy Act 2008 (section 100) allows the Secretary of State to require the payment of a levy by designated fossil fuel suppliers that supply fossil fuel 'for the purpose of generating heat'.⁹ Given that the levy will fund decarbonisation of the gas grid, we propose to place the levy on licensed gas suppliers only, and not off-gas grid fossil fuel suppliers such as oil and LPG.

We anticipate that suppliers pass on all policy costs imposed on them to their customers. We are proposing placing the levy on licensed gas suppliers for domestic and non-domestic customers, with the anticipated passing on of costs meaning that gas users will pay for the costs of decarbonising the gas grid. We are proposing that the levy should apply to all licensed fossil fuel gas suppliers, without exemption.

Given that we anticipate that suppliers will pass costs onto their customers, we are not proposing any exemptions from the levy for small suppliers. It is our view that small supplier exemptions are more relevant for schemes where suppliers have significant delivery obligations, which would otherwise pose a disproportionate administrative burden on small suppliers.

Some energy suppliers offset a proportion of their fossil fuel gas supply through carbon offsetting. While the government supports this, we are proposing to levy all gas suppliers without exemptions for carbon offsetting. This is because we want to avoid market distortion and ensure a level playing field among gas suppliers. Furthermore, it would be disproportionately burdensome to monitor the amount of gas offset by each company and would be likely to add significant cost to the delivery of the scheme.

A gas supplier will be subject to full levy costs if any proportion of their gas falls within the definition of fossil fuel under section 100 of the Energy Act 2008 (and accordingly within the definition of 'natural gas' in the Energy Act 1976). This means that suppliers who also supply a proportion of green gas will still be subject to the levy. This follows the same principle as levies applied on the electricity side and avoids market distortion. If a gas supplier is supplying green gas exclusively (and none of the gas they supply falls within the section 100 definition of 'fossil fuel'), they would not be subject to the levy, as they would not be encompassed by the section 100 definition of a 'designated fossil fuel supplier.'

- 1. Do you agree with our rationale for applying the levy to all suppliers of gas into the grid (apart from those that supply green gas exclusively)? Yes/No. Please provide evidence to support your response.**

⁹ The levy applies to suppliers who supply fossil fuel for a combination of heating and non-heating purposes.

Design of the Green Gas Levy

This section sets out the proposed design for the Green Gas Levy. It is essential that the Green Gas Support Scheme is financially sustainable. We have designed the levy to align it as closely as possible with the following key principles. The levy should, wherever possible:

- Be compatible with existing industry processes and practices, utilising existing industry data flows.
- Be deliverable, in that it must be feasible to implement the financial management systems within the scheme's implementation timescales.
- Take account of the lessons learnt from other relevant government levy schemes to maximise its efficiency and minimise the administrative burden on all parties.
- Reflect the need for predictability of costs for gas suppliers and have sufficient lead time to ensure suppliers can prepare for payment of the levy.
- Appropriately reflect Green Gas Support Scheme costs, ensuring no budget deficits.
- Minimise surpluses and outstanding cash balances, which in turn will minimise the impact on consumer bills.
- Be equitable and proportionate for bill payers.
- Minimise opportunities for supplier non-compliance.

In designing the levy, we have sought to develop a workable approach that conforms with the principles set out above and is deliverable in time for the launch of the Green Gas Support Scheme in autumn 2021. We believe, at present, that these principles are best delivered through a levy charged according to the number of gas meter points served by suppliers. There is precedent for this, for example in the fixed elements of gas network charges; supplier obligations under the Warm Home Discount scheme are also determined using meter point data. The rationale for a per meter point approach is set out in the next section.

However, we have also considered how a potential volumetric approach could work, an assessment of which is set out in the 'Future considerations for the Green Gas Levy' section. Under a volumetric approach, gas suppliers would be levied according to the amount of gas consumed by their customers. Such an approach would ensure that the costs of the levy are more closely aligned to gas consumption, in comparison to a meter point approach. Given the benefits of this, it is the government's intention to transition to a volumetric levy in 2024/25, or as soon as possible thereafter, subject to the current feasibility challenges being overcome. The policy design will need to avoid distortive effects and disproportionate burdens on market participants and maximise fairness for consumers. Any changes to the levy design would be subject to a public consultation. Further detail is set out in the 'Future considerations for the Green Gas Levy' section.

A per meter point approach would see levy costs distributed between gas suppliers according to the number of gas meter points that they supply. Under this approach, each meter point would be levied at the same amount per day, irrespective of gas consumption or customer type. A pence per meter per day levy rate would be set in advance of each scheme year. Suppliers would be billed quarterly, with the value of their levy payment determined by applying

the levy rate to the total number of meter points that they have served for every day in the previous quarter. This is described in more detail in the 'Calculating the levy rate' section.

Rationale for a per meter point approach

We are proposing using a per meter point levy design initially to support biomethane production under the Green Gas Support Scheme before transitioning to a volumetric levy in 2024/25, or as soon as possible thereafter, subject to the current feasibility challenges being overcome. The per meter point design would provide gas suppliers and consumers with a high level of certainty in terms of costs. It can also be delivered within the relatively short timescales needed to launch the Green Gas Support Scheme due to its relative simplicity.

Our rationale for recommending a per meter point approach is set out in more detail below:

- A meter point approach would be simple to implement from a supplier and systems perspective, as the levy rate would be applied uniformly across all meter points. Furthermore, as Ofgem have access to timely and accurate meter point information, there is no need for reconciliation processes, thereby reducing design complexities.¹⁰ This would help ensure the Green Gas Support Scheme launches on time, meaning that we meet our carbon savings targets, while supporting and growing the UK biomethane industry.
- A per meter point approach calculated on meter point data would provide a high degree of certainty on costs for suppliers and, in turn, their customers. The average increase in the total number of meter points largely consistent on a year-on-year basis.¹¹ This would reduce the need to collect additional funds, given the way in which the gas settlement process currently works, and ensure that the Green Gas Levy more accurately reflects Green Gas Support Scheme costs, while billpayer impacts are kept to a minimum.
- As a per meter point levy design is based on the number of meter points in the market, it would be resilient to any changes in gas demand caused by market shocks.

One key consideration, however, is that a per meter point design is anticipated to lead to gas suppliers distributing the costs of the levy evenly among their customers, regardless of consumption volumes. While it is our longer-term intention to transition to a volumetric based approach in 2024/25, or as soon as possible thereafter, subject to the current feasibility challenges being overcome, we have considered ways in which the per meter approach might allow for costs to be distributed in a way that is more relative to consumption. This is explored further in the 'Distribution of costs' section.

¹⁰ By reconciliation, we are referring to the process of comparing estimates against actual figures (e.g. of gas supply) to determine whether a supplier has paid too much or too little for a given period and adjusting this accordingly.

¹¹ Between 2009 and 2018, the number of meter points saw an average of a 0.8% increase each year and the year-on-year change varying between 0.3% and 1.4%. (Source: BEIS (2019) Sub-national gas consumption statistics, 2005-2018: <https://www.gov.uk/government/statistical-data-sets/gas-sales-and-numbers-of-customers-by-region-and-local-authority>)

Announcement of the first levy rates and notice period for suppliers

The Green Gas Support Scheme is expected to launch in autumn 2021. The levy will need to be set with a sufficient notice period to ensure suppliers can collect funds from their customers and make any changes to their systems before the first levy collection, which is intended to be in April 2022.

As set out in the 'Backdated payments' section below, it is proposed that the first levy collection will cover the cost of backdating support to biomethane producers that injected biomethane under the scheme in the approximately six month period between the launch of the Green Gas Support Scheme and the collection of the first levy payment.

We therefore intend to formally announce the first two levy rates approximately six months before the levy is collected, following regulations coming into force. One levy rate will apply from the launch of the Green Gas Support Scheme in autumn 2021 until March 2022, with the first collection at that rate happening in April 2022, based on meter points served in the third and fourth quarters of 2021/22 (from autumn 2021 to March 2022). A second levy rate will be announced at the same time to cover the period between April 2022 and March 2023, with the first collection at that rate happening in the second financial quarter of 2022/23 (i.e. July - September). A forecast of the first levy rate will need to be factored into any potential Ofgem October 2021 Price Cap level announcements to allow suppliers to collect funds from their customers ahead of the first levy collection in April 2022; the second levy rate will be factored into any potential Ofgem February 2022 Price Cap level announcement.

In subsequent years, the levy rate will be announced in January in sufficient time to allow Ofgem to facilitate its incorporation into any potential February Price Cap announcement.

The process outlined in this section is best illustrated through an example of the process for the 2021/22-2022/23 levy cycle, which is set out in Annex 1.

To provide gas suppliers with increased foresight of the levy, we also intend to publish the maximum amount that the levy could collect in any one year or a maximum possible levy rate. This is explained in more detail in the 'Budget control and financial management' section.

We will consider how else we can provide foresight throughout the lifetime of the scheme, such as by publishing spend and deployment data for the Green Gas Support Scheme.

Calculating the levy rate

As set out above, under our proposed approach, a levy rate would be set approximately three months in advance of each scheme year, with the exception of the initial two levy rates, which would be set six months in advance of collection. The levy rate would be set on a pence per meter per day basis. We are proposing this approach, rather than using a cut-off point in time (e.g. using only the number of meter points served by suppliers on the final day of each quarter), to account for changing supplier customer numbers across any given quarter and therefore avoid the need for reconciliation. As with other government decarbonisation schemes, Ofgem's administration costs for the Green Gas Support Scheme and the Green Gas Levy will be recovered through the Green Gas Levy.

The levy rate would be calculated by dividing the maximum projected Green Gas Support Scheme spend for the upcoming year – including biomethane deployment and the associated

administration costs – by the projected total number of meter points in the market for that year (multiplied by 365). This calculation would produce a daily rate per meter point.¹² In order to account for predicted changes in the total number of meter points throughout the year, which are likely to be insubstantial, an adjustment factor would be used as part of the levy calculation.

As part of the levy rate calculation, we propose that a small amount of headroom will be included to account for unexpected events that could otherwise result in a delay or deficit in Green Gas Support Scheme payments.

We are considering how to appropriately manage any yearly scheme underspend in a way that means suppliers can opt to reflect these savings in their customers' bills. One approach may be to ensure the calculation of the levy rate factors in any surplus funds resulting from underspend in the previous scheme year. Another approach would be to return any underspend to suppliers on a yearly basis. We would welcome stakeholders' views on this.

Timings of payments

There are several options for how frequently the levy should be collected, and the related provision of credit cover as part of the requirement for suppliers to make levy payments. These include relying on a single payment each year from suppliers or having regular instalments throughout the year. A more regular payment schedule carries a lower risk for government, the administrator, and suppliers. For example, experience on the Renewables Obligation scheme showed that if a large supplier failed mid-year, then it would impact the scheme significantly by the year end. Generally, increased frequency allows for a more rapid response to non-payment issues and a decreased risk of significant mutualisation, therefore reducing the need for suppliers to incorporate increased risk premiums into their pricing structures. It also avoids suppliers having to provide large amounts of credit cover at a given point in time. However, this needs to be considered against the increased administrative burden on all parties of more frequent levy and credit cover collections. Based on this, and the size of the scheme, we believe quarterly payments strike the right balance, but would welcome views as per the question below.

Each supplier will be notified of their levy payment on a quarterly basis. A supplier's quarterly levy payment will be calculated by taking the total number of meter points that they have served for every day in the previous quarter. Gas suppliers will be responsible for providing accurate daily meter point data for the previous quarter to facilitate this calculation. The sum of these daily totals over the previous quarter would provide each supplier's quarterly meter point day figure and would form the basis for their quarterly obligation under the Green Gas Levy. We propose that, once the meter point data provided by suppliers has been validated by Ofgem and a supplier's quarterly levy payment has been calculated, a notification of the payment amount and due date would be issued. Ofgem would create a notification for each supplier for the value of the pence per meter per day levy rate multiplied by each supplier's meter point day figure for the previous quarter.

The levy will be charged based on a supplier's meter point data for the previous quarter. Therefore, in the first quarter of a scheme year (April-June), suppliers will be paying for the fourth quarter of the previous scheme year (January-March) based on the previous scheme

¹² Meter point data used in this calculation may be subject to any exclusions, as set out when the policy is finalised in the government response to this consultation.

year's levy rate. The rationale for this is to ensure that suppliers are being charged according to accurate meter point data rather than on forecasts. We consider that using a pence per meter per day levy rate is likely to eliminate the need for reconciliation, as meter point calculations would be based on accurate backward-looking data on meter point days; this also avoids the increased scheme costs and complexity that reconciliation processes would likely involve.

The process outlined in this section is best illustrated through the example set out in Annex 1. The equivalent detail for a volumetric approach is subject to further development and will be set out in any consultation on a transition to a volumetric approach.

- 2. Do you agree with our rationale for proposing that the Green Gas Levy be charged on a per meter per day basis, according to gas supplier meter points served? Yes/No. Please provide evidence to support your response.**
- 3. Do you agree that the steps outlined above to provide notice to suppliers ahead of the first levy collection, and the notice period for subsequent years, are sufficient? Yes/No. Please provide evidence to support your response.**
- 4. Do you agree with our proposed methodology for calculating the pence per meter per day levy rate? Yes/No. Please provide evidence to support your response.**
- 5. What are your views on how underspend should be managed? Please provide evidence to support your response.**
- 6. Do you agree with our rationale for proposing that levy payments should be made quarterly? Yes/No. Please provide evidence to support your response.**
- 7. Do you agree with our proposal that gas suppliers should provide quarterly meter point data to Ofgem to inform quarterly levy payment calculations? Yes/No. Please provide information about the availability of meter point data and the formats that it could be provided in.**
- 8. Do you agree with the assumptions made and the costs set out for suppliers of familiarisation with the regulations and administration in the accompanying Impact Assessment (to be published during the consultation period)? Yes/No. Please provide additional information on any other costs to business associated with the Green Gas Levy that have not been discussed that should be considered (e.g. engagement with customers and changes to billing systems).**

Levy payments and credit cover

Suppliers will be required to make quarterly levy payments to Ofgem by certain due dates. As part of suppliers' requirement to make levy payments, we propose that suppliers will be required to lodge credit cover with Ofgem, to provide assurance that they are able to cover their levy obligations for each quarter. Suppliers will need to have lodged their credit cover with Ofgem by a given due date ahead of each quarterly payment, and to keep this topped up appropriately. Ofgem as the administrator may carry out checks to verify this. Credit cover provision could include a cash payment or a standby letter of credit with a bank with a required

credit rating, which will be set out in the regulations.¹³ In the case of letters of credit, it is anticipated that suppliers will be required to monitor the validity of the issuing bank's credit rating and take action when it is no longer valid, such as obtaining a new letter of credit or providing cash as a form of credit cover, as well as notifying Ofgem.

We intend for the value of a supplier's credit cover to be sufficient to cover at least 100% of the upcoming quarter's levy payment.

It is expected for credit cover to be in a form that can be drawn upon quickly (i.e. within days). Ofgem will look to draw down credit cover should payments remain due after a given due date. This includes a supplier making a late, partial or non-payment of their levy. It is intended that the timing and decision on whether to draw down credit cover will be at Ofgem's discretion.

We are mindful of the cost of credit cover to suppliers and the need to minimise administrative and cost burden where possible, but also of the importance of robust arrangements to ensure the required funds are collected. Credit cover is also intended to reduce the risk of a mutualisation event needing to occur (see section on 'Compliance and enforcement').

- 9. Do you agree with the proposal to require all suppliers to secure credit cover? Yes/No. Please provide evidence to support your response.**
- 10. Do you agree with the forms of credit cover that we are proposing could be provided by suppliers? Yes/No. If not, what alternatives would you recommend that could also be drawn upon quickly?**
- 11. Do you agree that credit cover should be lodged on a quarterly basis, (if there is not already sufficient cover in place), in order to cover the upcoming quarterly levy payment? Yes/No. Please provide evidence to support your response.**

¹³ A required credit rating will be set out in the regulations in line with Standard and Poor, Fitch, or Moody in relation to the International Standby Practices, an international set of rules governing the rights and obligations of parties produced by the International Chamber of Commerce (ICC). The current version is ISP98, ICC Publication No 590.

Distribution of costs

We have assumed that adopting a per meter point levy approach would likely result in gas suppliers distributing costs evenly among their consumers, regardless of their gas consumption, which could disproportionately affect low consumption consumers. We have considered several options to mitigate this, in parallel with wider government action to help these groups (discussed in the 'Impacts on billpayers' section). However, it should be noted that we do not have the powers to dictate how suppliers pass costs on to their customers under the section 100 Energy Act 2008 powers, so the options below would rely on suppliers choosing to pass on costs to their customers in the same way as the charges are set.

Tiering

We considered the use of tiered levy charges as a way to try to ensure costs more closely reflect consumption of gas, which in turn would help to reduce the amount paid by low-use gas consumers – mainly domestic consumers. Tiering could be created by using Xoserve's End User Category (EUC) bands, which are based on annual gas consumption.¹⁴ The majority of domestic and micro-businesses fall under Xoserve's lowest band, band 1, which is set at 73,200 kWh/year. Tiers for larger consumers could be set according to a condensed version of Xoserve's banding.

The tiering options we considered aimed to push more of the cost onto larger non-domestic consumers, given that they would pay a disproportionately low amount under a per meter point approach, whilst helping to reduce the cost of the levy on domestic consumers and smaller SMEs.¹⁵

The two approaches we determined most feasible to administer were:

- Option 1: Using band 1 of Xoserve's EUC to set gas consumers who consume 73,200 kWh/year or less in one tier (largely domestic consumers and micro-businesses) and remaining non-domestic customers in a second tier; or
- Option 2: having domestic consumers and micro-businesses in one tier, medium-sized consumers in a second tier, and the largest consumers in a third tier.

Both these options would push more of the levy cost onto larger, non-domestic consumers but would only make a very small change to costs for low gas consumers. They would be simple to implement from a supplier and systems perspective.

¹⁴ Xoserve provide central reporting on gas shipping and supply within Great Britain.

¹⁵ See Impact Assessment for in-depth analysis of impact of tiering options on gas consumers, which will be published during the consultation period

Table 1: Approximate bill impacts of tiering options

	Tier	Approximate price at peak in 2028
Option 1	Tier 1: Domestic and micro-business gas consumers	£6.80
	Tier 2: Remaining gas consumers	£21
Option 2	Tier 1: Domestic and micro-business gas consumers	£6.50
	Tier 2: 90% of non-domestic consumers not in tier one	£21
	Tier 3: Remaining 10% non-domestic consumers not in tier one	£220

Of the range of tiering options considered, we did not find a way to satisfactorily reduce the domestic/micro-business bill costs substantially without leading to some businesses paying substantially disproportionate amounts relative to their gas use. This could be particularly challenging for them in the context of recovery from COVID-19 impacts. This outcome stems from the wide variability in volumes of non-domestic gas use, and the fact that domestic consumers account for 99% of meter points in the UK.¹⁶

Table 1 shows the expected impact on bills from the tiering options considered. Though it is the government’s intention to transition to a volumetric approach for the Green Gas Levy, impacts at the peak from 2028 with a meter point approach have been included for completeness. Under option 1, those in tier 1 would save approximately 10p per year at the peak of the levy in 2028, compared to no tiering. Under option 2, those in tier 1 would save approximately 40p per year at the peak of the levy in 2028, compared to no tiering. Attempting to add additional tiers increases the risk of significant cliff-edges between tiers, which offered limited benefits to domestic and micro-businesses. Therefore, we have concluded that there is no implementable tiering system that achieves the goal of materially reducing the impact on domestic gas bills, while avoiding significant charges to some low gas consumption businesses.

As a result of this analysis, we propose introducing a levy calculated on a flat rate per meter basis. Under a flat rate approach, our central scenario suggests gas users would expect to see their bills increase by approximately £1.40 at the start of the levy in 2021, increasing to approximately £6.90 at the peak of the levy in 2028, equating to a total increase of about 1% on domestic gas bills.

We will continue to monitor the potential impact this could have on particular consumer groups. Further information on the impacts this policy may have, and government policies that are supporting lower gas consumption groups can be found in the ‘Impacts on billpayers’ section.

12. Do you agree with our proposal for a flat rate charge for the levy, without tiering, as part of a per meter point levy design? Yes/No. Please provide evidence to support your response.

¹⁶ BEIS (2013) Regional and local authority gas consumption statistics: <https://www.gov.uk/government/statistical-data-sets/gas-sales-and-numbers-of-customers-by-region-and-local-authority>

Impacts on billpayers

As set out in the ‘Design of the Green Gas Levy’ section, we are proposing a levy calculated on a flat rate per meter basis, though it is our intention to transition to a volumetric approach in 2024/25, or as soon as possible thereafter, subject to the current feasibility challenges being overcome. The policy design will need to avoid distortive effects and disproportionate burdens on market participants and maximise fairness for consumers. Any changes to the levy design would be subject to a public consultation.

As the date of the possible transition is not known, the impacts of the flat rate per meter basis have been considered for the lifetime of the scheme for completeness. An overview of impacts following a transition to a volumetric approach is presented in the ‘Impacts under a volumetric approach’ section.

The flat rate per meter approach is the only option that we have assessed as being feasible to deliver at this time that avoids any particular group of bill-payers being unacceptably burdened with higher costs relative to their gas consumption. This approach will see the same level of costs being added to all gas bills if suppliers pass on the costs to bill payers in the same way that they are charged, as anticipated.

We estimate that the impact of the levy on gas bills would be relatively small. Based on our proposed levy design approach of a pence per meter per day levy charge, and an indicative 15-year tariff support period for biomethane,¹⁷ we estimate the impact on the average gas bill may be around £1.40 per annum in the first year of the scheme, before rising to around £6.90 per annum by 2028. This equates to approximately 1% of the expected average household gas bill in 2028. For a small non-domestic consumer (consuming 140 MWh per annum), this equates to a bill increase from the levy of less than 0.5%, with this falling further for larger consumers.¹⁸

Whilst this means that domestic consumers will be paying the same as larger businesses, bill impacts are relatively low, and we will implement robust budgetary controls to ensure costs do not rise unexpectedly (see section below on ‘Budget control and financial management’). Our Impact Assessment, which we will publish during the consultation period, shows the impact of the levy on the number of households in fuel poverty will be minimal.¹⁹ There are several government policies and support in place for domestic consumers and vulnerable groups in relation to their energy use and costs. For example, the Energy Company Obligation has upgraded 2.2 million homes by delivering over 2.7 million energy efficiency measures, and the Warm Home Discount scheme supports over two million households with a £140 rebate for fuel poor customers. The government intends to consult in the autumn on a one-year roll-over of the Warm Home Discount scheme to 2021/22. Further to this, it intends to consider reform, to improve fuel poverty targeting, beyond 2022.

In addition to existing schemes, the Chancellor announced a £2 billion Green Homes Grant scheme in July, which will fund up to two thirds of the cost of hiring tradespeople to upgrade

¹⁷ The [Future Support of Low Carbon Heat](#) consultation asked for views on a 15-year tariff, as well as a 10-12-year tariff.

¹⁸ BEIS internal projection on average non-domestic prices and bills.

¹⁹ The magnitude of the impact from the levy on the average fuel poverty gap and the Low Income High Costs indicator fall well within the uncertainty ranges for these metrics at 95% confidence interval level.

Source: BEIS (2019) Annual fuel poverty statistics report: <https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2019>

the energy performance of homes (up to a maximum contribution of around £5000).²⁰ Low income households will be eligible for up to 100% government funding, up to around £10,000. This will upgrade more than 600,000 homes in England and save households up to £600 a year on their energy bills.

The government expects to publish its fuel poverty strategy later this year, which will set out how all these schemes will contribute to our target of improving fuel poor homes to energy efficiency Band C by 2030, which should reduce energy bills in a sustainable way.

For non-domestic consumers, the expected addition to bills will represent a very small proportional increase in the vast majority of cases. There is significantly greater variation in energy consumption amongst the non-domestic sector. However, outside of a small number of micro non-domestic consumers, consumption is higher amongst non-domestic consumers than domestic consumers. Consequently, the levy will have a lower proportional impact on their bills. This will ensure that the Green Gas Levy does not negatively impact businesses as they seek to recover from the COVID-19 pandemic.

In an indicative central scenario of biomethane tariff support for 15 years, the levy will impact consumer bills until 2040/41. Estimates of bill impacts in the longer term are subject to a high degree of uncertainty, given uncertainty about which fuels will be used for heating in the future as heat is decarbonised at scale. The analysis conducted to date on price and bill impacts is based on projections of gas consumption under current policies and current average gas consumption.

Impacts on billpayers under a volumetric approach

Under a volumetric approach and the same indicative 15-year tariff support period for biomethane, we estimate the impact on the price of gas by 2028 to be around 36p per MWh. For an average domestic household, this would mean an impact on their gas bill of around £5.10 per annum compared to no levy. This equates to less than 1% of the expected average household gas bill in 2028. As such, the impact on domestic consumers is lower than under the flat rate per meter basis.

For non-domestic consumers, the price impact by 2028 would be an increase of between 1% and 2% compared to no levy, due to the range of prices paid by different consumers. For a small non-domestic consumer (consuming 140 MWh per annum), the bill impact would be an increase of around £50 per annum by 2028 and for a larger non-domestic consumer consuming 1400 MWh per annum would pay an increase of around £500 per annum, compared to no levy.

Consequently, most non-domestic consumers would pay substantially more than under the flat rate per meter approach. As with the flat rate option, we would intend to implement robust budgetary controls to ensure costs do not rise unexpectedly.

13. What are your views on the impact that the Green Gas Levy could have on billpayers? Please provide evidence to support your response.

²⁰ Simple Energy Advice (2020) Green Homes Grant: <https://www.simpleenergyadvice.org.uk/pages/green-homes-grant>

Budget control and financial management

This section sets out the proposed framework for managing costs under the Green Gas Levy. It is essential that the Green Gas Levy has robust cost control measures in place to provide gas suppliers with certainty about upcoming costs, while minimising the impact of the levy on the gas bills of their customers. This levy will not form part of the Levy Control Framework, which is in place to control the costs on bills of supporting low carbon electricity. However, the measures we intend to put in place will be designed to effectively control costs on bills related to the Green Gas Levy.

Budget control

As set out in April's 'Future Support for Low Carbon Heat' consultation, the Green Gas Support Scheme is proposed to have the following budget control mechanisms to prevent costs on gas bills increasing unexpectedly due to higher than anticipated levels of biomethane deployment:

- A tariff guarantee budget cap, which, if met, would temporarily halt new tariff guarantee approvals until the scheme could be re-opened for new tariff guarantees once a new financial year begins, or some existing tariff guarantees withdraw. This would prevent deployment increasing beyond certain limits for a given period. In turn, this means that there would not be a need to increase the levy in response to such increased deployment, helping to control costs on bills.
- Overall annual budget caps for biomethane against which we can monitor scheme expenditure. As with the Renewable Heat Incentive scheme, we will ensure control over expenditure through retaining the ability to close the scheme if this is considered necessary due to a forecast risk of overspend. This means that levy costs cannot simply continue to rise if biomethane deployment is set to exceed the budget cap, as the Green Gas Support Scheme would be closed to new applications to avoid this overspend.

In order to give gas suppliers foresight of the maximum costs that they can expect to pay under the per meter point levy design, we are considering two options. One approach would be to publish, in advance of the scheme launch, the maximum amount that the levy could collect in any one year. An alternative would be to publish a maximum possible levy rate.

The maximum levy collection amount would be informed by the maximum budget cap amount on the Green Gas Support Scheme (mentioned above), projected administrative costs, and the small amount of headroom required. Similarly, the maximum levy rate would be based on the annual collection amount divided by an estimate of the number of meter points in any given year that results in the highest levy rate. There is, however, more uncertainty in the maximum levy rate calculation, as it would be subject to the variability of meter point numbers, and to account for this is likely to mean a higher maximum levy rate being published. We would welcome stakeholders' views on these options.

Financial management

In a typical scheme year, the levy rate will be announced in January, with the first collections under that levy rate to be made in the second quarter of the following financial year. As set out in the 'Announcement of the first levy rate and notice period for suppliers' section, we intend to

announce the first levy rate approximately six months before the levy is collected, with the first levy collection in April 2022; a second levy rate for scheme year 2022/23 will be announced at the same time.

As is set out in the 'Calculating the levy rate' section, the two major factors that establish the levy rate are the projected Green Gas Support Scheme spend for the upcoming year and the total number of projected meter points in the gas supplier market, for the upcoming scheme year. Both figures are subject to a degree of uncertainty - the levy will need to be set at such a level that it will cover Green Gas Support Scheme payments, and account for any change in meter points over the year. Following any move to a volumetric approach, the projected total amount of gas expected to be consumed, and the uncertainty around this figure, will also need to be considered. As set out in the 'Calculating the levy rate' section, an adjustment factor will be used as part of levy calculation to account for predicted changes in the total number of meter points throughout the year.

Uncertainty surrounding setting the Green Gas Support Scheme budget is more complex, especially in the early years of the scheme. Biomethane production is largely stable and predictable, however available evidence on the uptake of the scheme, and where it falls within projections, will be limited at the start of the scheme as it embeds. The funding collected from the levy needs to cover potential Green Gas Support Scheme spend within certain budget caps, allowing for the range of possible levels of deployment. However, the absolute amount of funding needed to be raised in the early years of the levy to account for this uncertainty remains low. This modelling will be updated as more data becomes available, such as commissioning dates provided with tariff guarantee applications, and as more plants come online under the Green Gas Support Scheme, allowing for the projections to be refined and narrowed over time.

The process for collecting the levy from gas suppliers will follow a quarterly cycle, with the levy being charged based on a supplier's previous quarter meter point data. Payments to biomethane producers will cover biomethane injected during the previous quarter. For biomethane payments under the Green Gas Support Scheme, biomethane producers would make quarterly data submissions at a fixed date during the quarter. Ofgem would confirm these against volume data on biomethane injection into the grid and make the applicable payments based on their biomethane injection over that quarter. This process for quarterly meter reading submissions represents a change from the process seen for the Non-Domestic Renewable Heat Incentive, where meter reading submission due dates are dependent on registration or commissioning dates of each plant. The rationale for this is related to the change in funding source from Exchequer funding to a levy. This allows sufficient time to collect funds from suppliers through the Green Gas Levy ahead of making payments to biomethane producers under the Green Gas Support Scheme. We would welcome any feedback on this approach since it differs from arrangements under the Renewable Heat Incentive.

Backdated payments

As set out in the 'Announcement of the first levy rate and notice period for suppliers' section, it is intended that the collection of the levy will start from April 2022 and Green Gas Support Scheme payments would be made after this date.

This means there will be a delay between the launch of the Green Gas Support Scheme (expected to be in autumn 2021) and levy funding becoming available. This gap is expected to be approximately six months, until the first levy collection in April 2022, subject to consultation responses regarding this notice period for suppliers.

We want to ensure that biomethane plants still deploy during this period and that developers have the necessary certainty to proceed. As such, it is the intention that this gap in funding will be funded by backdating levy payments. This would allow application and accreditation processes for biomethane producers to proceed without having to wait for levy funding to become available. We expect biomethane developers who commission biomethane plants in the initial months of the scheme to continue to submit meter readings to Ofgem before levy funding becomes available, according to the timings that will be required under the Green Gas Support Scheme for submission of readings.

Biomethane producers will receive backdated payments in the first quarter of 2022/23 for any biomethane injected in what is expected to be the first six months of the scheme. This is assuming the necessary information, including meter readings, have been submitted by the biomethane producers to Ofgem. The requirement to make these backdated payments will be set out in the regulations.

This proposal for backdated payments will provide certainty that biomethane injected in what is expected to be the first six months of the scheme would be paid for within a given period. The aim of this is to encourage biomethane producers to proceed with applying to the Green Gas Support Scheme during this initial period. This would avoid a hiatus in deployment and the knock-on implications for carbon savings and future biomethane deployment for the lifetime of the scheme.

There are unlikely to be significant cost impacts on suppliers from initially collecting the levy payment on a backdated basis, as Green Gas Support Scheme costs are estimated to be relatively low in the first six months of the scheme.

- 14. Do you agree with the proposed approach to budget control and financial management? Yes/No. Please provide evidence to support your response, including any views on the proposed change to the quarterly meter reading submission process for biomethane producers.**
- 15. Do you agree that the backdated payments proposal will provide the necessary certainty for biomethane developers to proceed with applying to the Green Gas Support Scheme during the gap in funding availability? Yes/No. Please provide evidence to support your response.**

Administration

We intend to appoint Ofgem as the administrator for the scheme. Ofgem will manage the collection of the Green Gas Levy from gas suppliers and distribution of payments to biomethane producers.²¹ Ofgem will also manage supplier compliance and enforcement for the levy. Ofgem can build on its experience in administering other government schemes to help

²¹ See our recently closed '[Future Support for Low Carbon Heat](#)' consultation for further information regarding Ofgem's role in administering the participant-side of the Green Gas Support Scheme.

ensure that the Green Gas Support Scheme and Green Gas Levy operate as effectively and efficiently as possible. Ofgem will consult on the administration in due course.

Compliance and enforcement

This chapter focuses on Ofgem's compliance and enforcement powers and processes in relation to Green Gas Levy obligations on gas suppliers. A robust supplier compliance and enforcement regime is essential for the efficient and effective administration of the Green Gas Levy, and for ensuring the funds are available for biomethane producers to receive payments under the Green Gas Support Scheme. It will enable Ofgem to effectively manage instances where licensed gas suppliers fail to fulfil their Green Gas Levy obligations.

Supplier compliance

The onus will be on gas suppliers to comply with the Green Gas Levy obligations. An important obligation is to pay their levy payments by a specific due date for a given quarter. Suppliers are also obliged to lodge credit cover as part of their requirement to pay their levy payments, as set out in the 'Levy payments and credit cover' section. As well as this, suppliers will need to provide accurate information to Ofgem, such as data for determining levy contributions.

Supplier non-compliance could take several forms including where suppliers fail in their obligations to make their levy payments, which includes failing to lodge credit cover by the required date, or make submissions of information to Ofgem that are late, inaccurate or need to be revised. Ofgem will have the flexibility to take proportionate action against the relevant suppliers based on the circumstances of the non-compliance on a case-by-case basis.

We intend for Ofgem to have the relevant powers in place, including:

- Requesting relevant information required by Ofgem to carry out its functions.
- Carrying out mutualisation when sufficient levy payments are not made by the required due date and insufficient credit cover is in place.
- Reporting relevant information, which may be made publicly available, where suppliers are non-compliant, which includes the non-provision of sufficient credit cover, as well as detail of any enforcement action taken.
- Applying interest to late levy payments.

Mutualisation

Mutualisation is the process through which any outstanding supplier payments owed by defaulting suppliers are recovered from the non-defaulting suppliers. We propose that Ofgem would have the power to run a mutualisation exercise following any shortfall in levy payments and credit cover each quarter.

It is intended that any mutualisation costs will be charged to suppliers according to the number of meter points they serve, or in the case of a future volumetric approach this could be

calculated in proportion to the amount of gas supplied by non-defaulting suppliers, during the period to which the mutualisation event corresponds. Where any costs are later recovered from defaulting suppliers, it is intended that these would be allocated to the non-defaulting suppliers in proportion to each supplier's contribution to the mutualisation event.

Credit cover, as part of suppliers' obligations to make levy payments, has been proposed to help ensure levy payments are made on time and to mitigate against the risk of mutualisation events being required.

16. Do you agree with the proposed mutualisation process? Yes/No. If not, what alternative mechanism would you propose?

Reporting

It is important that there is a transparent mechanism to report outstanding levy payments from suppliers and other key relevant information regarding non-compliance, such as where credit cover is not lodged. It could be beneficial to report such information in advance of possible mutualisation events across non-defaulting suppliers to give visibility and warning of possible upcoming mutualisation costs. It is also considered important to deter non-compliance due to the reputational impact of being included in any reporting. We propose that Ofgem may report supplier non-compliance as well as any enforcement action taken. This may be at regular or ad hoc intervals and it is intended that this information can be made publicly available.

17. Do you agree with the proposal that Ofgem may report and publish information on non-compliance and enforcement action? Yes/No. Please provide evidence to support your response.

18. Do you have any views on how reporting can be used to best contribute to compliance with scheme obligations?

Interest on late payments

Where payments from gas suppliers are late or they have not paid their levy contributions in full, we propose that suppliers would be charged interest on outstanding payment amounts. Charging interest is to ensure there is no advantage from making late or incomplete payments.

It is intended that interest would apply from the payment due date and that interest will continue to accrue until the outstanding payment has been made. We propose that the annualised interest rate is in the range of 5% to 8% above the Bank of England Base Rate, in line with other government energy levy schemes and network code charges.

This interest may apply automatically wherever there is a late payment, which would mean it is set out in regulations, as opposed to the application of interest being subject to Ofgem's discretion.

19. Do agree with the proposed approach of applying interest to late payments? Yes/No. Please provide evidence to support your response.

20. Do you agree with the proposed range of interest applied to late payments? Yes/No. Do you have any views on the appropriate rate of interest to mitigate against late payments?

Enforcement

There will need to be an enforcement regime that can address breaches of the regulations. Ofgem will use their discretion on the appropriate enforcement action to pursue on a case-by-case basis, so that it is proportionate to the nature and impact of the breach. We propose for Ofgem's powers to include:

- Imposing financial penalties and recover unpaid penalties, such as a debt, through the courts (civil action).
- Recovering any unpaid levy payments as a civil debt.
- Obtaining information from suppliers to inform Ofgem's enforcement decisions.

Where Ofgem is satisfied that a gas supplier is in breach or is likely to be in breach of any of its levy obligations, such as missing their levy payment due date, Ofgem will take appropriate steps to ensure that obligations are met. This may include setting out in a formal notice or order, the action that a supplier is required to take to remedy the non-compliance, and further potential enforcement action that will follow if the supplier remains non-compliant.

Financial penalties

We intend that Ofgem may issue financial penalties, particularly in instances where key obligations are not met, such as when levy payments are outstanding. We propose the maximum financial penalty may be up to 10% of a licensed gas supplier's turnover, in line with other schemes Ofgem administers.

We are aware that there may be cases where a gas supplier has little or no turnover. In such cases, this could mean that Ofgem would only be able to impose very small or no penalties, which would have limited effect as a deterrent. Therefore, we are considering whether an additional financial penalty maximum limit is required in the case where a gas supplier's turnover may be low.

Before imposing a penalty, notice shall be given, including the amount of the penalty. It is intended that Ofgem will have discretion to decide the level of penalty to apply on a case-by-case basis, which will be proportional to the nature and severity of the case, and the circumstances of the supplier. We propose that interest may be applied to financial penalties where the penalties have not been paid by the due date. This late payment interest may apply automatically, which would mean it is set out in regulation as opposed to being subject to Ofgem's discretion.

Financial penalties would be paid into the Consolidated Fund.

21. Do you agree with the proposed approach for Ofgem to issue financial penalties, including the proposed maximum limit? Yes/No. Please provide evidence to support your response.

- 22. What do you consider the maximum fine should be where a gas supplier has either a low turnover or no turnover at all? Please provide evidence to support your response.**

Civil action

Where a supplier is in default in respect of non-payment of the levy or of financial penalties, we intend that Ofgem will have discretion over whether to pursue any such non-payments as a debt in the civil courts, through seeking a court order.

- 23. Do you have any views regarding the pursuance of debts through the courts by Ofgem?**

Appeals and complaints processes

We intend that disputes by suppliers be handled through Ofgem's existing established complaints procedure.²²

We propose that appeals on enforcement decisions be handled through Ofgem's existing appeals process, as set out in their enforcement guidelines.²³ Suppliers will be able to make an application to the court²⁴ to appeal an enforcement decision made by Ofgem, for example the issue of an order or penalty.

²² The complaints procedure is outlined here: <https://www.ofgem.gov.uk/about-us/transparency/complaints-about-ofgem>

²³ Further information can be found here: <https://www.ofgem.gov.uk/publications-and-updates/enforcement-guidelines>

²⁴ In relation to England and Wales, the High Court; and in relation to Scotland, the Court of Session.

Future considerations for the Green Gas Levy

There are clear benefits from a levy that is charged on a volumetric basis. Such an approach would ensure that the costs of the levy are more closely aligned to gas consumption. Assuming that suppliers pass on costs in the same way they are charged, under a volumetric levy, smaller gas consumers would see a reduction in the impact of the levy on their gas bills. It would also mean that the largest consumers of gas would contribute a greater share.

At present, however, a per meter point design for the Green Gas Levy is preferable due to its reduced complexity and ability to be delivered within the relatively short timescales needed to launch the Green Gas Support Scheme. While this consultation sets out our proposals for implementing a per meter point approach in autumn 2021, it is the government's intention to transition to a volumetric levy in 2024/25, or as soon as possible thereafter, subject to the current feasibility challenges being overcome. The policy design will need to avoid distortive effects and disproportionate burdens on market participants and maximise fairness for consumers. Any changes to the levy design would be subject to a public consultation.

This chapter seeks views on high level proposals for a volumetric approach to levy design. It also highlights some current issues with a volumetric approach, which stem from the nature of a levy that is placed on gas suppliers and the way the gas market settlement process operates. This chapter asks for views and evidence on how these issues could be overcome.

It is critical that the Green Gas Levy is designed in a way which minimises the burden on the supply market in order to protect consumers from any market instability. Maintaining a competitive market, which can be simply navigated by suppliers without them facing excessive financial risks as a result of government policy, is a key part of developing a market that better serves consumers interests – with greater innovation and lower prices. Given this, it is important to be clear that any future changes to the levy design, once it is in operation, must align with these principles.

A volumetric approach to levy design

A volumetric approach would see gas suppliers levied according to an estimate of the amount of gas consumed by their customers. A levy rate for the year ahead – on a pence per unit basis - could be calculated by dividing projected maximum yearly Green Gas Support Scheme costs by forecasted total market gas supply. The possible approaches for a volumetric design are explained below:

Option 1: Volumetric based on consumption data (meter readings)

This approach would involve charging the levy based on actual consumption, using data from the gas settlement process. Where daily meters are in place, this accurate daily data would be used, and levy allocations settled quickly. However, for non-daily sites, levy charges would initially be based on estimates of consumption, which would then be reconciled when meter readings are submitted.

This approach would have the benefit of being based on actual gas consumption, making it accurate and fair for consumers. Furthermore, as the smart meter roll-out continues its progress towards market-wide coverage, it is likely that the levy would become simpler to calculate and administer over time. However, there are some key issues with this approach, which are outlined below:

- One issue of using suppliers' actual consumption data is that, for certain meter points, it can take up to three years to receive consumption data. This could result in a long settlement tail and suppliers' levy costs would probably require multiple and frequent reconciliations that would likely be complex and administratively burdensome, particularly in terms of the potential difficulties relating to suppliers leaving the market and/or customers switching between suppliers.
- Furthermore, there are significant seasonal and year-on-year variations in gas consumption. For example, annual gas consumption can vary from year-on-year trends by as much as 10%.²⁵ As any levy rate would still have to be set based on forecasted gas supply, there is a risk that the levy could under or over recover costs if there is significant deviation from predicted gas supply. Due to this variability, it is our assessment that this option would, relative to the per meter approach, require the collection of additional headroom to cover any reduction in gas demand to minimise the risk that the levy fails to recover full Green Gas Support Scheme costs. This would require careful consideration given the need to keep costs on consumer gas bills to a minimum.

Option 2: Volumetric based on a combination of Formula Year Annual Quantity (FYAQ) and consumption data

Certain classes of gas meter – those with non-daily meter (NDM) readings - have a Formula Year AQ (FYAQ) assigned to them, which is the estimated annual consumption of that meter point which is fixed for the year ahead on 1 April, with adjustments only allowed in rare circumstances.²⁶ This is a measure of estimated annual consumption for that meter based on historical metered volumes and adjusted to the seasonal normal demand. Under this approach, the levy charge could be calculated for each supplier based on the FYAQ for all of the NDM meters that they supplied during that month or quarter (depending on final levy design), with meter readings used for daily meters (DMs).

The advantage of this approach is that it provides a forward-look of consumption for each NDM meter point, meaning that charges can be recovered from customers on that basis, eliminating the need for reconciliation or future settlements for those meters, based on actual consumption data, which can take up to three years to be provided, in some instances. Avoiding reconciliation processes would be advantageous because these would be complex and administratively burdensome. However, there are some key considerations with this approach:

- If suppliers were to pass on costs based on a customer's FYAQ, there could be issues of over or undercharging if a customer's circumstances changed during that period.

²⁵ Based on variability observed in domestic and non-domestic gas consumption between 2009 and 2018. For more detail, see the Sensitivity Analysis section of the accompanying Impact Assessment once it is published. Source: <https://www.gov.uk/government/collections/sub-national-gas-consumption-data>

²⁶ This is fixed on 1 April based on the Supply Meter Point AQ on 1 Dec of the previous year.

- The sum of FYAQs across the market rarely match total consumption, which could lead to accounting difficulties. There could also be greater potential for administrative errors, e.g. due to less assiduous updating of FYAQs that are increasing than those that are falling.
- If a consumer reduces their gas usage, they may not see an immediate benefit that year in their charges related to the levy, though sustained reductions should be reflected in following years.
- This approach could still rely on meter readings to determine gas consumption for DM meter points. This would introduce the same issues as identified in Option 1. Furthermore, this would add the problem of using different methodology to calculate charges for different meter point classes, which could lead to unfair cost recovery.
- If we were to implement a volumetric approach for the Green Gas Levy in the future, and charge on the basis of the FYAQ for NDM meters, we would want to ensure that any variation between levy charges for consumers based on estimated and actual consumption were minimal. This will require careful consideration and we would welcome thoughts on how this could be addressed.

Option 3: Volumetric based on Supply Meter Point Annual Quantity

Each meter point also has a Supply Meter Point AQ ('Rolling AQ') assigned to it, which is the estimated or calculated annual gas consumption for that meter that – unlike the FYAQ – is updated monthly based on the receipt of meter readings (where provided). Under this approach, the levy charge could be calculated for each supplier, based on the updated Rolling AQ for all of the meters that they supplied during that month, or quarter (depending on final design), rather than being fixed for the year. For those meters where meter readings are not provided, the Rolling AQ would unchanged. For the significant proportion of meter points that do not have regular meter readings, there will be a varying degree of accuracy for the charges applied relative to gas consumption.

The advantage of this approach is that it would allow for a more accurate representation of actual gas consumption when compared to Option 2. This means that consumers are more likely to be charged according to their actual gas consumption. However, there are also some key considerations with this approach:

- As the Rolling AQ is a dynamic figure that can be updated based on meter readings and new information, there is a risk that the levy may under or over recover costs if the sum of monthly changes to all meter points' Rolling AQ results in the overall demand expectation changing. Therefore, this approach could result in further complexity in the design to mitigate against this.
- Given the possibility for unpredictable variations as the Rolling AQ is updated, it is our assessment that such an approach may, relative to the per meter point approach, require the collection of additional headroom to mitigate the risk of under collection. This would require careful consideration given the need to keep costs on consumer gas bills to a minimum.
- As with Option 2, this approach still carries the risk of the potential for administrative errors.

Wider Considerations

For any of the approaches outlined above, it is likely to be beneficial for a possible volumetric approach to have consistent levy collections split equally across each quarter, rather than reflecting the seasonal differences in gas usage. This is important to provide certainty to suppliers and consumers and to mitigate the impact on suppliers' finances and cashflows from the levy.

A key consideration will be that the levy is designed in such a way that ensures it consistently collects enough funds each quarter to meet the budget demands of the Green Gas Support Scheme (i.e. to enable payments to be made to biomethane producers).

As a volumetric levy would tie levy costs more closely to gas consumption, non-domestic gas users with a higher gas use would see a higher cost impact on their bills compared to their costs under the meter point approach. This would be particularly true for Energy Intensive Industries (EII). Therefore, under a volumetric approach, consideration would need to be given to specific impacts on EIIs as part of the policy design.

We are conscious that many of the practical challenges for the delivery of a volumetric approach stem from the nature of a levy on gas suppliers, and that there may be alternative ways to levy on gas volumes that avoid this. For example, we could consider exploring options such as a levy more closely aligned to the gas wholesale market, which could be more directly levied on a per unit basis, or a levy directly on gas consumers, akin to the Climate Change Levy.

We welcome views on such alternative approaches and evidence of their advantages, where possible. Evidence received as part of this consultation will be considered alongside the government's 'Net Zero Review' on the costs of the transition to Net Zero.²⁷

- 24. Do you agree with more closely aligning levy costs with consumption through a volumetric approach, as the scheme develops? Yes/No. Please provide evidence to support your response.**
- 25. Which of the three options set out above would be the most suitable for designing a volumetric levy? We would welcome views on how to overcome any of the issues with those approaches that have been identified.**
- 26. Are there any feasible alternatives to the proposals set out in this chapter for achieving a levy that is proportionate to gas volumes? Yes/No. Please provide evidence to support your response.**
- 27. How could we ensure that a volumetric levy is designed in a way that promotes a competitive gas supply market and minimises costs, administrative burden, and other impacts on suppliers?**

²⁷ HMT (2019) HM Treasury's review into funding the transition to a net zero greenhouse gas economy: terms of reference: <https://www.gov.uk/government/publications/net-zero-review-terms-of-reference/hm-treasurys-review-into-funding-the-transition-to-a-net-zero-greenhouse-gas-economy-terms-of-reference>

Does your interest in this consultation relate to a particular geographical area? (select all that apply)

England

Scotland

Wales

Responses that indicate the respondent's interest relates to Scotland or Wales may be shared with the Scottish or Welsh devolved authorities respectively, unless such respondents explicitly state they do not wish for their response to be shared. No personal data relating to respondents will be shared.

Next steps

The Impact Assessment associated with this consultation will be published during the consultation period, on the same webpage as the consultation.

This consultation will close on 2 November 2020, after which responses will be analysed and it is expected that the government response will be published this winter.

Following the government response, the introduction of regulations to deliver these policy proposals will be subject to an affirmative statutory instrument.

Annex 1 – 2021/22 - 2023/24: Example of the Levy Cycle

Financial Year	Quarter	£ per meter-day levy rate	Supplier's quarterly meter-day figure ²⁸	Events and Timings
2021/22	Quarter 3 (Oct – Dec)	£X per meter-day	A3	<ul style="list-style-type: none"> • Autumn 2021 – Green Gas Support Scheme launches. • Autumn 2021 – £X per meter-day levy rate for 2021/22 announced. £Y per meter-day levy rate for 2022/23 announced. • No GGL payments are collected from suppliers during Q3.
2021/22	Quarter 4 (Jan – Mar)	£X per meter-day	A4	<ul style="list-style-type: none"> • No GGL payments are collected from suppliers during Q4.
2022/23	Quarter 1 (April – Jun)	£Y per meter-day	B1	<ul style="list-style-type: none"> • Ofgem calculates supplier obligations for Q3 and Q4 2021/22. This is determined using the £X per meter-day levy rate multiplied by the supplier's Q3 and Q4 2021/22 meter-day figure (A3 and A4). • Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. • Ofgem collects levy from suppliers.

²⁸ Placeholders have been used for the purposes of this example to aid the reader's understanding of how the levy rate is calculated, while avoiding using exact figures. Please see the key below.

Key: A = 2021/22, B = 2022/23, C = 2023/24; 1 = Financial Quarter 1, 2 = Financial Quarter 2; 3 = Financial Quarter 3, 4 = Financial Quarter 4.

(E.g. A3 = 2021/22, Financial Quarter 3).

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Financial Year	Quarter	£ per meter-day levy rate	Supplier's quarterly meter-day figure ²⁸	Events and Timings
2022/23	Quarter 2 (Jul – Sept)	£Y per meter-day	B2	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q1 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q1 2023/24 meter-day figure (B1). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
2022/23	Quarter 3 (Oct – Dec)	£Y per meter-day	B3	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q2 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q2 2022/23 meter-day figure (B2). Following the data validation processes, Ofgem notifies suppliers of their levy payment. Ofgem collects levy from suppliers.
2022/23	Quarter 4 (Jan – Mar)	£Y per meter-day	B4	<ul style="list-style-type: none"> January – £Z per meter-day levy rate for 2023/24 announced. Ofgem calculates supplier obligations for Q3 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q3 2022/23 meter-day figure (B3). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.

Consultation on a Green Gas Levy

Financial Year	Quarter	£ per meter-day levy rate	Supplier's quarterly meter-day figure ²⁸	Events and Timings
2023/24	Quarter 1 (April – Jun)	£Y per meter-day	C1	<ul style="list-style-type: none"> • Ofgem calculates supplier obligations for Q4 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q4 2022/23 meter-day figure (B4). • Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. • Ofgem collects levy from suppliers.
2023/24	Quarter 2 (Jul – Sept)	£Z per meter-day	C2	<ul style="list-style-type: none"> • Ofgem calculates supplier obligations for Q1 2023/24. This is determined using the £Z per meter-day levy rate multiplied by the supplier's Q1 2023/24 meter-day figure (C1). • Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. • Ofgem collects levy from suppliers.
<p>Process repeats for the duration of a per meter point levy design being in place.</p>				

This consultation is available from: www.gov.uk/government/consultations/green-gas-levy.

If you need a version of this document in a more accessible format, please email enquiries@beis.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.