



HM Revenue  
& Customs

## Indirect Tax - Environmental Taxes

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**Date** 06/08/2015  
**Our ref** N/A

Dear Sir/Madam

### **Climate change levy (CCL) – Informal consultation on the transitional arrangements for removing the CCL renewables exemption**

We wrote to you on 8 July to inform you of the government's Summer Budget 2015 announcement to withdraw the CCL exemption for supplies of renewable source electricity made to businesses and the public sector. We undertook to hold an informal consultation with industry stakeholders over the summer and autumn to determine:

- an appropriate length for the transitional period for the change; and
- how the transitional arrangements will operate in practice.

This letter provides you with some additional information about the ending of the exemption and practical guidance on the transitional period, and invites you to take part in the informal consultation by completing the attached questionnaire.

### **Background**

The Budget changes mean that supplies of renewable source electricity that were generated on or after 1 August 2015 will no longer be eligible for the CCL exemption. This was provided for in the Summer Finance Bill 2015. The relevant Budget documents explaining the announcement can be found at <https://www.gov.uk/government/publications/climate-change-levy-removal-of-exemption-for-electricity-from-renewable-sources>

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Information is available in large print, audio and Braille formats.

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transitional arrangements for removing the CCL  
renewables exemption v1.0



The Summer Budget announced that there will be a transitional period from 1 August 2015, during which electricity utilities supplying renewable source electricity will be able to:

- continue to make CCL exempt supplies of renewable source electricity that was generated before 1 August 2015; and
- redeem the levy exemption certificates (LECs) associated with that electricity.

### **Informal consultation**

The exemption applied to supplies of renewable source electricity made by electricity utilities to businesses and the public sector under a renewable source contract (a contract containing a renewable source declaration). We are therefore particularly interested in the views of electricity utilities and invite them to complete the questionnaire attached to this letter. However, if other interested parties have views we would also like to hear them.

If you would like to contribute to this informal consultation, please send your response to the address at the top of this letter **by 31 October 2015**.

Alternatively, if you would like an electronic copy of the questionnaire to respond to, please e-mail your request to [wiki.moore@hmrc.gsi.gov.uk](mailto:wiki.moore@hmrc.gsi.gov.uk).

Following the informal consultation we will write to you again to inform you of what happens next regarding the transitional arrangements and timescales for the complete withdrawal of the exemption. No decision has yet been taken on the precise date for this. However, the withdrawal will require further legislative changes to be made in Finance Bill 2016.

### **Further information**

For the benefit of suppliers of renewable electricity and other interested parties, we have enclosed some background information which provides answers to additional questions you may have. This covers how the exemption will work during the transitional period.

Further information about the CCL is set out in notices available on the GOV.UK website at <http://www.gov.uk/business-tax/climate-change-levy>. Where appropriate, these notices are in the process of being updated to reflect the Summer Budget announcement on renewable electricity.

Thank you in advance for taking part in this informal consultation.

Yours faithfully

Viki Moore

Energy Taxes Policy Advisor

## **Removal of the CCL exemption for electricity generated from renewable sources:**

### **Information on the transitional period**

The transitional period began on 1 August 2015. We are consulting with stakeholders on an appropriate length for it, but it is not expected to end before 31 March 2016 at the earliest.

For further information on levy exemption certificates (LECs) please see Ofgem's more detailed frequently asked questions on the GOV.UK website [here](#).

#### **Section 1 – Utilities (i.e. licensed suppliers and other persons designated as utilities for CCL purposes) who make supplies exempt from CCL to a business or the public sector under a contract containing a renewable source declaration (a renewable source contract)**

**Q1 I only supply renewable source electricity. Do I now need to register for CCL?**

*A1 Yes, if you make supplies to business or public sector customers. From 1 August 2015 you'll need to register for CCL within 30 days of making your first taxable supply and account to HMRC and pay any tax that becomes due as a result of this change. You can find more information on registering and your responsibilities on the GOV.UK website [here](#).*

**Q2 At 1 August 2015 I will have a credit balance in my balancing and averaging account. From that date will I be able to use that credit balance to exempt supplies of renewable source electricity made under a renewable source contract?**

*A2 Yes, you will be able to. A transitional period is now in place during which suppliers will be able to continue supplying renewable source electricity exempt from CCL where this was generated before 1 August 2015.*

**Q3 I have a debit balance for the current renewable source electricity averaging period. What happens if I cannot obtain sufficient renewable LECs to balance out the account before 1 August 2015?**

*A3 From 1 August 2015 you will still be able to obtain renewable LECs for renewable source electricity generated before that date. If you still have a debit balance at the end of your renewable source electricity averaging period you will have to pay CCL on the shortfall.*

**Q4 I expect to have a debit balance at the end of my current renewable source electricity averaging period and I have renewable source contracts that run beyond that date. Will I have to account for and pay CCL on those supplies?**

*A4 If you have renewable source contracts that run beyond the end of your averaging period you may continue to make supplies under these contracts and treat them as exempt from CCL. However, unless you have been able to acquire additional renewable source electricity generated before 1 August 2015 and the associated LECs, your debit balance of renewable source electricity will continue to increase. Any shortfall of tax will need to be accounted for and paid to HMRC at the end of the averaging period or at the end of the transitional period, whichever is sooner.*

**Q5 I do not have sufficient LECs for renewable source electricity generated before 1 August to fulfil existing renewable source contracts. Will I be able to pass on the additional cost of the CCL to customers?**

*A5 Whether the contract remains valid, or whether you are able to pass on the additional CCL, will depend on the terms of the contract and is therefore a commercial matter.*

**Q6 I have more than enough LECs for renewable source electricity generated before 1 August 2015 to fulfil my existing renewable source contracts. Will I be able to enter into new renewable source contracts?**

*A6 Yes, as long as you have sufficient LECs for renewable source electricity generated before 1 August 2015 to be able to make a renewable source declaration.*

## **Section 2 – Generators producing renewable source electricity**

**Q7 I sell renewable source electricity to a utility or other energy market participant. How am I affected?**

*A7 The supply of any electricity (whether renewable or not) to a utility or other energy market participant is outside the scope of CCL, but the supply by the utility is taxable when the end customer is a business or in the public sector.*

*Upon application, Ofgem (or, in Northern Ireland, the Utility Regulator) will issue a Levy Exemption Certificate (LEC) for each complete megawatt of renewable source electricity generated before 1 August 2015. In the case of renewable source electricity sold to a utility, the utility has been able to exempt the supply of this electricity to business and public sector customers where it is supplied under a renewable source contract and the provenance of the electricity is evidenced by a LEC. This has given the LEC a commercial value. For renewable source electricity generated from 1 August 2015 onwards this exemption will no longer apply and LECs are not being issued for such electricity by Ofgem or the Utility Regulator in Northern Ireland.*

**Q8 Will LECs continue to be issued for electricity I generated after 31 July?**

*A8 No, Ofgem or the Northern Ireland Authority for Utility Regulation ('the Utility Regulator') cannot issue LECs for renewable electricity generated on or after 1 August 2015. See Ofgem's [FAQ](#) for more details. However, the ability to transfer, redeem or retire eligible LECs for renewable source electricity generated before 1 August that are issued on Ofgem's Renewables and CHP Register will continue to be available as usual throughout the transitional period.*

*Ofgem will review the functionality of their register relating to CCL accreditation and LECs during the transitional period.*

**Q9 I am a generator based outside the UK. Will I still be eligible to receive renewables LECs?**

*A9 No, Ofgem or the Utility Regulator in Northern Ireland cannot issue LECs for renewable electricity generated on or after 1 August 2015. See Ofgem's [FAQ](#) for more details.*

**Q10 How will this impact other schemes administered by Ofgem which currently use LECs?**

*A10 Ofgem will not issue LECs for renewable electricity generated on or after 1 August 2015. For Fuel Mix Disclosure and other relevant schemes, suppliers should therefore retain the proof of supply in Great Britain for the electricity in question. Ofgem will expect suppliers to be able to present this evidence on request. They will review their process for verifying this in due course and update all affected guidance in line with this review. Full details are provided in Ofgem's FAQ.*

**Q11 How will this impact on the Low Carbon Contracts Company's (LCCC) determinations for Green Excluded Electricity (GEE) under Contract for Difference (CFD)?**

*A11 LCCC's current process is based on existing processes used by Ofgem for Fuel Mix Disclosure (FMD), as described in LCCC guidance. As Ofgem's process will need to change (see Q10), LCCC are also reviewing their process and will update stakeholders in due course.*

### **Section 3 - Autogenerators, unlicensed suppliers and CHPs producing renewable source electricity**

**Q12 I have installed renewable generation capacity to produce electricity on-site. Do I now need to register to pay CCL on these supplies?**

*A12 No. Self-supplies of renewable source electricity by a generator are outside the scope of CCL.*

**Q13 I am an unlicensed supplier making supplies of renewable source electricity to an end customer. Do I now need to register to pay CCL on these supplies?**

*A13 No. supplies of renewable source electricity by an unlicensed supplier are outside the scope of CCL. However, different rules apply in the case of CHPs.*

**Q14 I operate a co-fired CHP that is certified as wholly exempt under the CHP Quality Assurance Scheme. Do I now need to register to pay CCL?**

*A14 No. Electricity from a wholly exempt CHP that is self-supplied or supplied directly to a customer is outside the scope of CCL.*

**Q15 I operate a co-fired CHP that is certified as partly exempt under the CHP Quality Assurance programme. Do I now need to pay CCL on self-supplies of renewable source electricity?**

*A15 Self-supplies of renewable source electricity by a generator are outside the scope of CCL. You should establish the percentage of the total power output (TPO) that is renewable source electricity. You should then establish the percentage of the remaining TPO that constitutes the qualifying power output (QPO). From this can be calculated the proportion of the TPO which can be exempted from CCL when used to make self-supplies.*

**Q16 I operate a co-fired CHP that is certified as partly exempt under the CHP Quality Assurance Scheme. Do I now need to pay CCL on direct supplies of renewable source electricity?**

*A16 Direct supplies of electricity by a partly exempt CHP can only be exempted to the extent that the electricity is from good quality CHP. This applies regardless of the input fuel.*

**Q17 I sell some of the renewable source electricity that I produce to a utility or other energy market participant. How am I affected?**

*A17 The supply of any electricity (whether renewable or not) that is sold to a utility or other energy market participant is outside the scope of CCL, but the supply by the utility is taxable when the end customer is a business or in the public sector.*

*Upon application, Ofgem (or, in Northern Ireland, the Utility Regulator) will issue a Levy Exemption Certificate (LEC) for each complete megawatt of renewable source electricity generated before 1 August 2015. In the case of renewable source electricity sold to a utility, the utility has been able to exempt the supply of this electricity to business and public sector customers where it is supplied under a renewable source contract and the provenance of the electricity is evidenced by a LEC. This has given the LEC a commercial value. For renewable source electricity generated from 1 August 2015 onwards this exemption will no longer apply and LECs are not being issued for such electricity by Ofgem or the Utility Regulator in Northern Ireland.*

#### **Section 4 - Customers**

**Q18 I am a business or public sector customer. Will I be affected by this change?**

*A18 You may be affected if you have been purchasing electricity exempt from CCL under a contract that contains a renewable source declaration (a renewable source contract). Your supplier will become liable to account for CCL on supplies of renewable source electricity where this is generated on or after 1 August 2015. However, this change should not affect wholesale electricity prices and the business energy market is very competitive, meaning there should always be cheaper tariffs available for businesses to switch to.*

**Q19 I am signed up to a renewable source contract. Will I start to see CCL appearing on my bills from 1 August?**

*A19 Not necessarily. You should speak to your supplier to see how your contract will be affected.*

**Q20 I am signed up to a renewable source contract and am paying a premium price for 'green electricity'. Will I now have to pay CCL on top of that green premium?**

*A20 Your supplier may not be able to supply you with renewable source electricity that qualifies for the CCL exemption for the duration of your contract. You should speak to your supplier to see how your contract will be affected*

**Q21 I am a domestic customer. Will I now have to pay CCL on the electricity I purchase?**

A21 *No, supplies to domestic users are excluded from CCL, regardless of the source of the electricity.*

**Q22 I operate a charity. Will I now have to pay CCL on the electricity I purchase in relation to charitable activities?**

A22 *No, supplies to charities are excluded from CCL, regardless of the source of the electricity.*

**Q23 I qualify for exemption from CCL because of the nature of my business. Will I now have to pay CCL on the electricity I purchase?**

A23 *No, end use exemptions apply regardless of the source of the electricity.*

**Q24 I am in a Climate Change Agreement (CCA). Will I now have to pay the full rate of CCL on the electricity I purchase?**

A24 *No, the 90% reduction on CCL electricity rates for CCA participants applies regardless of the source of the electricity.*

**Informal consultation questions for industry stakeholders on the removal of the CCL exemption for electricity from renewable sources**

Please return your response to this informal consultation to:

**HM Revenue & Customs  
The Energy Taxes Policy Team  
Environmental Taxes  
3rd Floor West  
Ralli Quays  
3 Stanley Street  
Salford  
M60 9LA**

*Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004. If you would like further information about this please contact me at the address given at the start of this letter.*

1. How many renewable Levy Exemption Certificates (LECs) do you currently have in your possession, which are capable of being redeemed against renewable source contracts you have or expect to have with business and public sector customers?
  
  
  
  
  
  
  
  
  
  
2. How many further renewable LECs do you believe will come into your possession, relating to renewable source electricity generated before 1 August 2015?
  
  
  
  
  
  
  
  
  
  
3. Based on the numbers you have given above, how long do you anticipate it would take for you to use up these renewable LECs against your renewable source contracts, and how long do you think the transitional period should be?



4. Do you expect to have sufficient renewable LECs to fulfil your existing renewable source contracts? If not, what is the anticipated shortfall?
5. If you expect to have insufficient renewable LECs to fulfil your existing renewable source contracts do you intend to (highlight as appropriate):
  - a) fulfil your renewable source contracts until they expire and pay the CCL due at the end of your averaging period;
  - b) end the contracts you have in place for supplying renewable source electricity and begin charging CCL on those supplies;
  - c) fulfil your contracts and acquire renewable LECs for electricity generated before 1 August 2015 to cover those contracts;
  - d) make other arrangements (please specify)?
6. If you expect to have more renewable LECs than are sufficient to fulfil your existing renewable source contracts, do you intend to (highlight as appropriate):
  - a) continue to fulfil your existing contracts and accept you may have unredeemed renewable LECs at the end of the transitional period, on which you have not claimed the exemption;
  - b) set up additional renewable source contracts throughout the transitional period;
  - c) make an onward supply to other electricity suppliers who may have a shortfall of renewables;
  - d) make other arrangements (please specify)?
7. What impact, if any, will the withdrawal of the CCL exemption have on your billing and / or IT systems?

8. Is there anything else you would like us to consider in relation to the transitional arrangements for removing the CCL exemption for electricity generated from renewable sources, or any other issues in relation to the removal of the exemption?

*Please can you provide us with some additional information about your business to help us fully understand the context of the answers you have provided:*

Your Name:

E-mail address:

Company Name:

Company Address:

Type of Business (highlight as appropriate):

- Generator
- Utility
- Autogenerators, unlicensed suppliers and CHPs producing renewable source electricity
- Business / public sector consumer
- Other (please specify)