GUIDANCE NOTE 41

USE OF CHPQA TO OBTAIN EXEMPTION FROM CLIMATE CHANGE LEVY (CCL) AND RELIEF FROM FUEL DUTY (INCLUDING ON SUPPLIES SUBJECT TO CARBON PRICE SUPPORT (CPS) RATES OF CCL AND FUEL DUTY)

GN 41.1

One of the aims of the CHPQA programme is to ensure that entitlements to fiscal and other benefits are in line with, and incentivise, the environmental performance of CHP Schemes. Thus:

- Exemption from the main rates of CCL, or if appropriate fuel duty, for some or all of the fuel inputs and electricity outputs is one of the fiscal benefits available to Good Quality CHP Certified under the programme. Such exemption requires the CHP operator to be in possession of a Secretary of State (CHP) Exemption Certificate (example shown in Appendix GN41-A), which can only be obtained if the CHP Scheme concerned is certified under CHPQA (see GN0 and GN41.6 below).
- Possession of a CHPQA Certificate, however, does not compel applicants to obtain a Secretary of State (CHP) Exemption Certificate. A Secretary of State (CHP) Exemption Certificate need only be requested if the applicant wishes a scheme to be treated as a combined heat and power scheme for the purposes of CCL and fuel duty (main and CPS rates) or, alternatively, wishes to apply for a revaluation of Business Rates (see GN43).
- CHP Schemes certified by the CHPQA programme with a generating capacity of 2 MWe or above who use CPS rate commodities as input fuels are liable to account for the CPS rates of CCL and fuel duty on the proportion of the fuel that is the subject of a deemed supply. However, CPS rate fuels do not form part of their deemed supply when intended for use in producing:
  - Heat outputs (i.e. CHPQA “Qualifying Heat Output”) which can include steam, water, air and heat used for cooling via absorption chilling.
  - Mechanical power (used for driving fans, compressors or pumps for example).
  - Qualifying electricity that is used on site. Electricity is used on site if it is self-supplied or supplied to a consumer by an exempt unlicensed electricity supplier.

GN 41.2

The purpose of this Guidance Note is to provide applicants with guidance on how to use their CHPQA Certificates to obtain the benefits afforded under the CCL legislation and fuel duty, including, where appropriate, reducing their liability, to CPS rates.

GN 41.3

The administration of the Climate Change Levy is the responsibility of HM Revenue

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& Customs (HMRC). This introductory guidance has been prepared in consultation with, and has been approved by, HMRC.

- Part 1 of this Guidance Note relates only to fuel inputs to CHP Schemes seeking exemption from the main rates of CCL.
- Information about liability to CPS rates of CCL is covered in Part 2.
- For treatment of power outputs, see Part 3.
- ➢ More detailed guidance is available from HMRC.

GN 41.4

This Guidance Note is based upon information contained in:

- HMRC Notice CCL1: a general guide to Climate Change Levy and associated notices (see https://www.gov.uk/business-tax/climate- change-levy)
- HMRC Notice 175: motor and heating fuels - relief from Excise Duty: oils used to generate electricity (see https://www.gov.uk/government/publications/excise-notice-175-motor-and-heating-fuels-relief-from-excise-duty-oils-used-to-generate- electricity)

These remain the definitive documents at the time of publication. Readers seeking further clarification over the procedures described herein should refer initially to these documents. A full list of extant CCL legislation is set out in HMRC Notice CCL 1. Further queries should be addressed to HM Revenue & Customs via the Help Line at 0300 200 3700.

Glossary

GN 41.5

The following terms are used in this Guidance Note, the majority of which are defined in more detail in the CHPQA Standard.

Annual Operation is a period commencing on 1 January and finishing on 31 December of the same year.

Fully Exempt / Partially Exempt. A Scheme is classified in its Secretary of State (CHP) Exemption Certificate as either

Fully exempt if the Qualifying Power Output equals the Total Power Output,

or

Partially exempt if this condition is not met.

Qualifying Fuel Input is the registered annual fuel input qualifying as input to Good Quality CHP (MWh GCV).

Qualifying Heat Output is the registered amount of useful heat supplied annually from a CHP Scheme (MWhth). It is heat output that is demonstrably utilised to displace heat that would otherwise be supplied from other sources.

Qualifying Power Output is the registered annual power generation qualifying as output from Good Quality CHP (MWhe).

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Total Fuel Input is the total registered annual fuel input to a CHP Scheme (MWh GCV).

Total Power Capacity is the registered maximum power generation capacity of a CHP Scheme (MWe).

Total Power Output is the total annual power generation of a CHP Scheme (MWhe).

Secretary of State (CHP) Exemption Certificate

GN 41.6

The Secretary of State (CHP) Exemption Certificate for each Scheme:

- Is valid from the date of issue, unless varied or revoked, provided the operator provides a current CHPQA Certificate and maintains the SoS Certificate's validity annually with the Secretary of State by 30th June, indicating this by completing the appropriate section at the end of the annual CHPQA self-assessment form;
- Classifies Schemes with valid CHPQA Certificates as:
  - **Fully exempt,** if the Qualifying Power Output equals the Total Power Output, or
  - **Partially exempt,** if this condition is not met.
- States the CHPQA Site and Scheme Reference Number recorded in the CHPQA Certificate.
- States the Efficiency Percentage that has the same meaning as the Power Efficiency stated in the CHPQA Certificate.
- **May be revoked if**
  - The operator, on their annual CHPQA self-assessment form, does not request that the Secretary of State (CHP) Exemption Certificate be maintained or fails to renew their CHPQA Certificate by 30 June in any year, or
  - The Scheme ceases to operate, or
  - The operator so requests.
- For most Schemes, the Certificate will rarely need to be varied. It must be varied appropriately if the classification of the Scheme changes between "fully exempt" and "partially exempt" and/or if the Efficiency Percentage changes from being 'greater than' to 'less than' the Threshold Efficiency Percentage, or vice versa. The Threshold Efficiency Percentage is 20%.

Note: Obtain/maintain/vary a Secretary of State (CHP) Exemption Certificate by requesting one as part of the CHPQA submission.

Enquiries on Secretary of State (CHP) Exemption Certificates only:

Department of Energy Security and Net Zero CHP Policy Team

Email: CHPPolicy@energysecurity.gov.uk

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Retain your Secretary of State (CHP) Exemption Certificate in a safe place. It confirms your legal entitlement to claim CCL exemption.

PART 1: SECURING EXEMPTION ON FUEL INPUTS FROM MAIN RATES OF CCL

GN 41.7

This part of Guidance Note 41 relates only to fuel inputs to CHP Schemes with valid CHPQA and Secretary of State (CHP) exemption Certificates seeking exemption on supplies of gas, liquefied petroleum gas (LPG), coal and other solid fossil fuels from the main rates of CCL.

The fuel subject to the main rates of CCL is determined using the formula:

[TFI] – [QFI]

Where:

[TFI] is the scheme Total Fuel Input

[QFI] is the scheme Qualifying Fuel Input

These figures are given on your CHPQA certificate.

GN 41.8

To secure exemption with effect from the earliest possible date, the delivery of a completed supplier certificate (Form PP11) to the fuel supplier must be completed in good time before billing in respect of the supply.

GN 41.9

The following actions must be carried out:

- **Access copies of HMRC Supplier Certificate Form PP11 and PP10 (supporting analysis) from**
  - GOV.UK web site and download HMRC Reference: Notice CCL1/3
  - HMRC Enquiries to 0300 200 3700
  - **Note:** One Supplier Certificate will be required for each separate account with each supplier of fuel to the Scheme.
- **Complete the Supplier Certificate (Form PP11) and Supporting Analysis (Form PP10).** Bear in mind that each form refers to the entire fuel supply for the customer account in question, and not necessarily just the fuel used by the CHP Scheme.
- **Use Form PP10** to give HMRC details to support your certificate of entitlement to relief from the main rates of Climate Change Levy (CCL) and to work out the total relief to use on form PP11 supplier certificate. Once you have completed the PP10, submit to HMRC.

Use form PP11 to tell your supplier the level of relief to use against your liability to Climate Change Levy. Send the completed Supplier Certificate (PP11) to the fuel supplier.

Retain copies of both forms for your own records.

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It is important to bear in mind when referring to your CHPQA Certificate when completing Forms PP11 and PP10 that:

- The percentage represented by the Qualifying Fuel Input as a proportion of Total Fuel Input to the Scheme is fully exempt from the main rates of CCL and the reliefs and exemptions (if, for example, the site belongs to a Climate Change Agreement) only apply in principle to fuel in excess of the Qualifying Fuel Input.
- Supplies of CCL commodities intended for generating outputs that do not qualify as good quality, continue to be liable to the main rates of CCL. All the exemptions and reductions relating to an individual supplier account**, not necessarily just the CHP Scheme**, must be claimed in one Supplier Certificate PP11.

Guidance on completing Forms PP10 and PP11 can be found in the HMRC Excise notice CCL 1/3 'CCL - reliefs and special treatments for taxable supplies'. Alternatively, please contact HMRC using the Help Line on 0300 200 3700.

Reconciliation

GN 41.10

Upon receipt of a new CHPQA certificate and following its submission to DESNZ for Secretary of State (CHP) Exemption Certificate purposes, you must review the accuracy of a supplier certificate and take corrective action where required. The HMRC notice CCL 1/2 'Combined heat and power schemes' provides guidance on this process.

PART 2: LIABILITIES TO CARBON PRICE SUPPORT (CPS) RATES OF CCL

GN 41.11

From 1 April 2013, a carbon price floor (CPF) was introduced. Supplies of coal, gas and LPG used in most forms of electricity generation are liable to carbon price support (CPS) rates of CCL. CPS rates of fuel duty apply to supplies of oils and bio-blends used for the same purpose.

GN 41.12

The operator of CHPQA certified schemes with an individual generating capacity of 2 MWe and above are liable to account for the CPS rates of CCL (or fuel duty) on the proportion of supplies of fuel used to generate electricity. Fuel used to supply 'useful heat' from GQCHP Schemes (the Qualifying Heat Output) is not subject to CPS rates.

The fuel input that is used to generate this electricity is calculated using the established boiler displacement method, which removes fuel used to supply 'useful heat'

$$[TFI] - \frac{[QHO]}{\eta_{h,ref}}$$

Where:

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[TFI] is the scheme total fuel input

[QHO] is the scheme qualifying heat output (the 'useful heat')

$\eta_{h,ref}$ is the reference boiler heat efficiency, taken as 81% (GCV basis).

If the outputs of the scheme include mechanical power, a further calculation is required. HMRC's Excise Notice CCL1/6 gives details.

The "Percentage of Fuel Input Referable to Electricity Generation" can now be calculated and is shown on the CHPQA Certificate.

The conventional fuel used to generate electricity subject to CPS can then be determined by applying this percentage to the quantity of each CPS rate fuel.

GN 41.13

With effect from the 1 April 2015, the government introduced an exemption from the CPS for fossil fuels that are brought onto, or arrive at a CHPQA site, in order to generate Good Quality electricity that is used onsite.

- Electricity is used on-site if it is self-supplied or supplied to a consumer by an exempt unlicensed electricity supplier.
- Electricity is self-supplied where the producer makes no supply of it to another person but causes it to be consumed in the UK. This will include the parasitic load of the CHP scheme.
- A CHP scheme can be an exempt unlicensed electricity supplier if it qualifies under Class A or Class C of Schedule 4 of The Electricity (Class Exemptions from the Requirement for a Licence) Order 2001.

The steps necessary to establish the amount of fuel on which CPS is due is detailed in section 9 of HMRC's Excise Notice CCL1/6, with an Annex giving a list of examples.

All generators liable to pay the CPS rates of CCL must register with HMRC, if not already registered for CCL.

GN 41.14

As CPS rate commodities do not form part of the deemed supply when intended for use in producing mechanical power, if so used then the amount of fuel subject to CPS (re: GN 41.12 and 41.13) needs to be corrected to account for this (see HMRC Notice CCL1/6 for details of how to do this).

Reconciliation

GN 41.15

On receipt of a new CHPQA certificate, and following its submission to DESNZ for Secretary of State (CHP) Exemption Certificate purposes, you must review the correctness of the deemed supplies over that period and if too little or too much CPS rates of CCL paid, account for it on your next CCL return (form CCL 100).

For further details on the carbon price floor and determining your liabilities, please refer to Excise Notice CCL1/6: a guide to carbon price floor.

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PART 3: SECURING RELIEF FROM FUEL DUTY ON FUEL INPUTS

Upon receipt of a new CHPQA certificate, fuel duty relief can be claimed on oils and biofuels used in the annual operation covered by the certificate using the formula:

$$[TFI] - \frac{[QHO]}{\eta_{h,ref}}$$

Where:

[TFI] is the scheme Total Fuel Input

[QHO] is the scheme Qualifying Heat Output

$\eta_{h,ref}$ is the reference boiler heat efficiency, taken as 81% (GCV basis).

These figures are given on your CHPQA certificate.

In calculating the relief that can be claimed, you should deduct the amount of duty due at the CPS rate on oils and biofuels used to produce non-Good Quality used on site and any electricity not used on site. See HMRC Notice 175.

PART 4: REGISTRATION AND ACCOUNTING TO HMRC FOR MAIN RATES OF CCL PAYABLE ON POWER OUTPUTS

GN 41.15

To qualify as "Good Quality" electricity output, electricity must be produced in CHP scheme(s) that are:

(a) assessed and certified under CHPQA and

(b) in possession of a valid Secretary of State (CHP) Exemption certificate that determines whether a scheme is either fully or partially exempt for CCL purposes.

GN 41.16

Relief from CCL is based on the level of "Good Quality" electricity produced in a CHP scheme and, if all electricity is self or direct supplied, is limited by the fraction of Qualifying Power Output (QPO) divided by Total Power Output (TPO) taken from the current CHPQA certificate (which is based on the previous year's performance data). The exemption in relation to qualifying electricity that is produced in either a fully or partly exempt CHP Scheme and indirectly supplied has not been available for CHP Scheme electricity produced since 1 April 2013.

In relation to schemes that are fully exempt (as denoted on a Secretary of State (CHP) Exemption certificate), QPO/TPO = 1 and for partly exempt schemes this ratio will be <1.

Once a new CHPQA certificate has been received and the actual performance for the year is known, adjustments may be required, as the performance certified on the CHPQA certificate must be applied against the year to which the data relates.

GN 41.17

Electricity supplied in excess of the QPO is liable to CCL – subject to any relief entitlement - and there is a requirement to register with HMRC in order to pay CCL. The person making the supplies from the non-exporting CHP Scheme (normally the

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CHP operator) is responsible for registering with, and accounting to, HMRC for all CCL due on supplies of electricity output in excess of the Qualifying Power Output of the Scheme.

For further guidance on how to determine your liability to the main rates of CCL for electricity supplied by a CHP scheme, please refer to HMRC Excise notice CC1/2 ‘Combined Heat and Power schemes’.

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Appendix GN41-A: Secretary of State (CHP) Exemption Certificate

CCL: Combined Heat and Power Station FULL-Exemption Certificate

Issued under Paragraph 148(4) to the Finance Act 2000

Department for Energy Security & Net Zero

CHPQA Scheme Reference Number	
Efficiency Percentage	
Date of issue	

The Secretary of State certifies the CHP Station (to which the CHPQA Reference Number above relates) as fully exempt for the purposes of the Climate Change Levy.

Signed by authority of the Secretary of State

Signature	
Name in BLOCK letters	

SAMPLE

Note

1. This Exemption Certificate is issued accordi[ng] to the Climate Change Levy (C[ombined] Heat a[nd] Power Stations) Exemption Certi[fi]cate [Regu]lations 2001, which also specify the condi[tions] u[nder] which this Certificate may be [cancelled] or rev[oked].
2. This Exemption C[ertif]icate is in force [fro]m the date of issue onward[s] subj[ect] to variation and revocation provisio[ns] in Regulation 4 of the Climate Change Levy (Combined Heat [and] Power Stations) Exemption Certificate Re[gula]tions 2001.
3. Efficiency Percentage has the same meaning as the Power Efficiency stated on a CHPQA Certificate.
4. The term fully exempt combined heat and power station is defined in the Finance Act 2000, Schedule 6, paragraph 148.
5. Variation of this Certificate will be required if a combined heat and power station which was previously certified as being partly exempt subsequently satisfies the conditions for full exemption, and vice versa, or if its efficiency percentage falls below or rises above the prescribed threshold efficiency percentage.
6. This Certificate will be revoked if:
   i. the combined heat and power station ceases to operate;
   ii. the operator fails to send a copy of the current CHPQA certificate relating to the station to the Secretary of State by 30th June in each year after the year in which the application was made for an Exemption Certificate; or
   iii. the operator makes a written request to that effect to the Secretary of State.
7. This Exemption Certificate remains the property of the Secretary of State and must be returned if revoked or varied.

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