

Microgeneration and the Climate Change Levy

Climate Change Levy

The Climate Change Levy (CCL) is an environmental tax levied on the supply of certain taxable commodities, for example electricity, gas and coal, and charged by energy suppliers to final business consumers. Domestic, and most charitable, consumers do not pay CCL.

To encourage the generation and supply of more environmentally friendly 'green' power, electricity from certain renewable sources (for example on shore and offshore wind, biomass, solar hydro and tide) can be exempt from CCL (i.e. it is not charged when they are supplied to business by a utility).

HM Revenue and Customs administer CCL and further information on the renewable exemption and the levy itself can be found at:

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_ShowContent&id=HMCE_CL_000281&propertyType=document

How is this levy-free electricity identified?

As electricity can come from a range of technologies and sources, HM Revenue and Customs, in liaison with the energy regulator, Ofgem, introduced a 'badge' for such renewable sources. This is the 'Levy Exemption Certificate' (LEC). For each Megawatt hour (MWh) that an accredited renewable generator produces, Ofgem issues a LEC. However, the electricity in question must be consumed in the UK. Ofgem does not issue LECs for fractions of a MWh but generators may aggregate fractions, until a whole MWh is built up. Ofgem will then issue a LEC for that electricity.

Energy suppliers/ utilities making final electricity supplies to business consumers must satisfy Revenue & Customs that they are actually supplying renewable electricity for the purposes of CCL. This is done by matching LECs against that renewable electricity. Suppliers therefore have to source sufficient LECs from generators. This means that LECs have a nominal value for the amount of CCL from which they secure exemption. That value is currently £4.41 (per MWh). This is the amount of CCL that the utility would have to charge the business consumer if the electricity were not exempted. This is good news for generators, who should be able to obtain money for each LEC from the energy supplier to whom they sell their electricity. However, payment for LECs is a contractual matter between the generator and supplier.

HM Revenue and Customs expect, in the normal course of events, that a LEC 'accompanies' electricity from the generator to the supplier, and the supplier

would also probably expect this. However, it is acceptable for a generator to sell the LEC to a third party – for example an energy trading company. This is a commercial matter for the parties involved. The key points are that valid LECs ‘badge’ a quantity of electricity supplied to a non-domestic consumer in the UK, and no attempt is made to redeem them more than once. Additionally, accreditation for, and receipt of, LECs is not obligatory for renewable generators.

How can I start receiving LECs?

As indicated above, a generator wishing to obtain LECs must obtain accreditation from Ofgem. Alternatively, the generator may employ an agent to arrange the accreditation and to manage routine contacts with Ofgem thereafter. Agency services might include obtaining, and selling on, LECs. Information on the accreditation process and on how Ofgem can help with the CCL exemption for renewables can be obtained from :

<http://www.ofgem.gov.uk/Sustainability/Environmnt/cclrenexem/Pages/CCLRenewablesExemption.aspx>

Is a LEC linked to a ROC?

No. The CCL pre-dates the Renewables Obligation. Although both measures are encourage green generation and supply, they are completely different (for example what qualifies as ‘renewables’ differs between the two), and work under different legislation. Additionally, the Renewables Obligation Certificate (ROC) is has an intrinsic value unlike the LEC ‘badge’ which is only of value to the supplier for the amount of CCL that it exempts.

Is a LEC the same as a REGO?

A European Union directive of 2001 required all Member States to establish a system allowing generators to obtain Guarantees of Origin certificates, specifying, for example, the exact energy source from which the electricity is produced. In response to this UK legislation in 2003 established Renewable Energy Guarantees of Origin (REGOs). As with LECs, Ofgem administers the issue of REGOs. They are used as proof that electricity is sourced from qualifying renewable sources. Specifically from 1 July 2007 energy suppliers will have to hold REGOs as evidence of renewables in the mix of fuels sold to customers.

There, however, the similarity ends. CCL, LECs and REGOs were enacted under different legislation and are different instruments. As with ROCs what is defined as renewable is different for the two. Additionally, LECs are issued for each Megawatt hour of electricity, while REGOs are issued for every Kilowatt hour. Finally, LECs have no role in fuel mix disclosure. It is envisaged that, where a generator holds both LECs and REGOs, they would be transferred together to suppliers. This is because electricity cannot be in two places at once, and LECs and REGOs passed on to separate parties would suggest that the same parcel of renewables electricity had gone to two destinations.

Full details on REGO procedures can be obtained from the Ofgem website at:

<http://www.ofgem.gov.uk/Sustainability/Environmnt/REGOs/Pages/REGOs.aspx>