CLIMATE CHANGE LEVY AND THE CARBON REDUCTION COMMITMENT

This paper seeks the views of energy suppliers on potential reforms of the climate change levy (CCL) in light of the announcement at Budget 2012 on the carbon reduction commitment (CRC).

Background

The CRC energy efficiency scheme was introduced in 2010-11 and targets large non-energy intensive electricity users in the public and private sector, such as banks, small manufacturers, retailers and utility companies. Around 2,100 organisations participate which together account for 10 per cent of the UK's carbon emissions. The scheme's purpose is to ensure these organisations are incentivised to make energy efficiency savings. These incentives include an allowance scheme to price carbon. The revenues generated from the allowance sales were originally recycled back to participants in a way that rewarded the best performance, based on published league tables.

To support the public finances, revenue recycling was removed at the Spending Review 2010, with the revenue going direct to the Exchequer. To give participants more time to adjust to the scheme, trading of allowances was delayed until Phase Two, which starts in 2014-15. This move to a trading scheme is a requirement of the Climate Change Act, which provides the legal basis for the CRC.

Despite the changes to the original scheme, participants have aired concerns that it remains complex and imposes the administrative burden of complying with its emissions monitoring and reporting requirements. At Budget 2012 the Chancellor announced that the Government would consult on simplifying the CRC scheme to reduce administrative burdens on business. Should very significant administrative savings not be deliverable, the Government would bring forward proposals in autumn 2012 to replace CRC revenues with an alternative environmental tax, and would engage with business before then to identify potential options.

The Department of Energy and Climate Change (DECC) consultation to simplify the scheme from Phase 2 (2014-15) is currently running and closes in June. Proposals include:

- simplifying the overlap between the CRC and the EU Emissions Trading System;
- reducing the number of fuels measured from 29 to 4 (electricity, gas, gas oil and kerosene – the latter two for heating); and
- simplifying the allowance sales process.

Options

If DECC's consultation on simplifying Phase Two does not significantly reduce administrative burdens, the Government will bring forward proposals for an alternative environmental tax to replace CRC revenues. Some business groups, such as the CBI, have publically called for a reform of the CCL.

CCL is a tax on energy supply collected from energy companies, whereas the CRC is a tax on a polluter's emissions. This makes directly replacing CRC with reform of CCL challenging. Nevertheless, without prejudice to final policy options on either the CRC or alternatives, we have identified two potential reforms to CCL and would welcome energy suppliers' views on the deliverability of these proposals. It would be helpful to understand the potential timing implications of the potential reforms – one mooted proposal has been to introduce changes by 1 April 2014. Of course, the Government will engage with wider business groups to seek their views on the wider policy challenges that each approach brings.

Premises–based rise in CCL

Energy thresholds per taxable commodity could be introduced over which individual premises would be charged higher rates of CCL. This would not target CRC participants directly but instead all leviable premises with larger energy consumption. Energy suppliers would be accountable for charging the higher rate of CCL on all supplies to premises with energy consumption above the threshold. Save for the addition of the higher rates, there would be no change to the current CCL structure and reliefs, nor any changes to the taxpayer base. However, we believe this approach may involve significant changes to energy suppliers' systems and we are keen to understand the implications.

We would welcome suppliers' views the practical feasibility of this proposal generally. In particular we would welcome views on

- the type and extent of information currently held on individual premises, such as quantities of premises above particular thresholds;
- the extent of the system changes which would be needed to implement the solution - how quickly from a firm announcement of intention to proceed with this option could suppliers' systems be ready;
- the time period that any thresholds should apply (to control for seasonal fluctuations) e.g. monthly thresholds with annual ceiling;
- how estimated bills would be reconciled after actual meter readings were obtained; and
- an estimate of suppliers' likely costs.

Certificate–based rise in CCL

A more targeted increase in CCL broadly aimed at large but not energy-intensive companies as opposed to premises could involve applying higher rates of CCL to, say, current CRC participants based on a system of certificates:

- one certificate issued to HMRC by the certifying authority (e.g. DECC or the Environment Agency) for all CRC groups, based on the CRC definitions; and
- each member of a participating group would then provide a certificate to each of their suppliers, for each taxable commodity supplied to each of their premises, to enable energy suppliers to apply the increased rates.

Energy suppliers would be accountable for charging the higher rate of CCL to all certificated users.

We would welcome suppliers' views on the practical aspects of this proposal generally. In particular we would welcome views on:

- the extent of any system changes would be need to implement the solution - how quickly from a firm announcement of intention to proceed with this option could suppliers' systems be ready;
- suppliers' ability to cope with all the additional certificates; and
- an estimate of suppliers' likely costs.