



**HM Revenue
& Customs**

CHP Arrangements for CCL: Key Aspects

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Objectives

- **CHP special treatment – CCL overview**
- **CHP LECS – overview**
- **Simplified arrangements – overview**
- **Legislative change**

CHP: Relief on input fuel

- **The threshold power efficiency percentage under the CHPQA Standard is 20%**
- **Where CHP power efficiency meets or exceeds the threshold: CHPQA certifies that the total fuel input (TFI) is all Qualifying Fuel Input (QFI)**
- **Where power efficiency is less than the threshold: QFI is scaled back to the 'relevant fraction' EG $QFI = X/20$ of TFI**

Transitional arrangements

- **On the introduction of the CHPQA Standard (November 2000) transitional arrangements were put in place for existing CHP that operated a steam turbine/engine where the threshold efficiency percentage was set at 15%**
- **From 1 April 2005, those arrangements no longer apply and such stations must achieve or exceed the threshold efficiency percentage of 20% for TFI to be certified as QFI**

Power output: Arrangements up to April 2003

- Only Direct supplies of electricity from a ‘fully exempt’ CHP are outside the scope of the levy
- Only Direct supplies of electricity from all ‘partially exempt’ CHPs are exempt until it reaches its Qualifying Power Output (QPO)
- Direct supply means:
 - Contract involves only CHP operator and the customer
 - No intermediaries take ownership of output
- Status lost to the end user if sold to a licensed utility for onward supply

Post April 2003 arrangements

- QPO now a fraction of Total Power Output (TPO) rather than a cumulative limit expressed in MWh
- QPO identified by way Levy Exemption Certificates (LECs)
- CHP operator to allocate QPO to supplies and their 'output record' will 'match' against the LECs issued by OFGEM
 - Direct supplies LECs retained
 - Indirect supplies LECs passed on

What else?

- **“CHP LEC” serves a similar function to a “renewable LEC” for indirect supply purposes**
- **“Fully exempt” CHP operator must allocate QPO/LECs to cover all supplies i.e. indirect, direct, and self-supplies**
- **“Partly exempt” CHP again must allocate QPO/LECs but may be able to maximise the benefit of the electricity generated**
- **Reconciliation of LECs issued against actual performance under CHPQA**

Trading of LECs

- **Where supply is made, the LEC *should* be transferred and accompany the electricity**
- **LEC can be the determinative piece of evidence where source of electricity cannot be identified in any other way**
- **LEC cannot turn demonstratively ‘non-qualifying’ electricity into ‘qualifying’ electricity**

‘Simplified Arrangements’

- **LECs not required for non-exporting stations (non-exporting stations are those that do not supply electricity to a third party for the purpose of onward supply).**
- **Effectively pre-April 2003 situation pertains:**
 - **Fully qualifying CHPs are outside the scope of CCL**
 - **Partially qualifying CHPs are exempt up to QPO limit**
- **Result: administrative burden reduced**

Other legislative change (1) CHP input fuel

- **Previously input exemption tied relief to the certified efficiency percentage as stated on a Secretary of State Certificate at the time the supply was made to the CHP**
- **Budget 2003 announced intention to allow reconciliation of provisional relief with actual entitlement**
- **New Regulations address this by giving legal framework to administrative device contained in CCL Technical Brief 15**

CHP input fuel – exemption to be based on current efficiency

- **The CCL (Combined Heat and power Stations) Regulations 2005 came into effect 22 July 2005 and sets a station's threshold efficiency percentage at 20%**
- **Provides that a stations efficiency percentage to be the actual efficiency percentage achieved in the current calendar year (Annual Operation)**
- **A CHP may quantify its efficiency percentage at the time a claim for relief is made rather than having to calculate relief on the basis of the efficiency percentage stated on its SoS certificate**

CHP input fuel – exemption to be based on current efficiency (Cont'd)

- **The recipient of CCL relief is required to review a certificate given to a supplier to ensure the amount of relief claimed is correct**
- **The Climate Change Levy (Miscellaneous Amendments) Regulations 2005 provide that the review of a supplier certificate shall take place following the submission of the current CHPQA certificate to the Secretary of State**
- **CHPQA certificates to be sent to the Secretary of State by 30 June each year**

Other Legislative Change (2) - Exemption from registration

- **Review of supplier certificate**
 - **Too much relief claimed – payment due to Customs**

Where a review of a supplier certificate determines that excess relief has been claimed, that excess falls to be a taxable supply by the person who made the claim (Deemed supplies). The making of taxable supplies creates a CCL registration requirement. However, where a requirement to register is only created by a review , Customs can exempt a person from the requirement to register.

Where a CHP is registered for CCL (e.g. partly exempt station) deemed supplies should be declared via CCL returns.

Other legislative change (3) - Tax Credit

- **Review of supplier certificate**
 - **Too little relief claimed**

The CHP operator can apply for a refund from Customs of the CCL under-claimed via the existing tax credit system (Form CCL 200X)

Other Legislative change (4) - Hydrocarbon Oils Duties (Reliefs for Electricity Generation) Regulations 2005

- **These regulations that came into force on 1 January 2006, introduce a relief from excise duty for rebated heavy oils used to generate electricity in a generating station or a fully exempt or partly exempt combined heat and power station.**
- **The relief is in the form of a repayment**

The Hydrocarbon Oils Duties (Reliefs for Electricity Generation) Regulations 2005 (Cont'd)

- **For CHP, the level of relief will depend on the ratio between a station's efficiency percentage and its threshold efficiency percentage**
- **A station's efficiency percentage is its power efficiency as stated on its CHPQA certificate**

The Hydrocarbon Oils Duties (Reliefs for Electricity Generation) Regulations 2005 (Cont'd)

- **Where a station's efficiency percentage meets or exceeds the threshold efficiency percentage the amount of relief afforded is the amount of relevant duty that has been charged and paid on qualifying oil used to produce electricity in the annual operation to which the application relates.**
- **Where the efficiency percentage of a station is less than the threshold efficiency percentage, the amount of relief that is afforded is the relevant fraction of the relevant duty that has been charged and paid**

The Hydrocarbon Oils Duties (Reliefs for Electricity Generation) Regulations 2005 (Cont'd)

- **Relief is allowed only upon written application. Applications for relief must be made in respect of an annual operation**
- **An application must be made no later than nine months after the annual operation to which it relates and may not be made where the amount to be paid is less than £50.**
- **Further guidance and information is contained in Notice 175 available on HMRC website**

Assurance?

HMRC have to apply risk principles to assurance, but main CHP areas:

- Has CHP certificate been issued for the CHP?
- In CHP operators' records:
 - Check indirect supplies covered by a LEC and direct supplies covered or are not chargeable
- In electricity suppliers records (Indirect supplies)
 - Check balancing / averaging periods