



**HM Revenue  
& Customs**

## CHP Arrangements for CCL: Key Aspects

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# Objectives

- **CHP special treatment – CCL overview**
- **CHP Levy Exemption Certificates – overview**
- **Simplified arrangements – overview**
- **Budget 2007**

## 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**

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## Treatment of 'Exporting' Schemes

- **Qualifying Power Output (QPO) is a fraction of Total Power Output, expressed in MWh**
- **QPO identified by way of Levy Exemption Certificates (LECs)**
- **CHP operator to allocate QPO to supplies and their 'output record' and must 'match' against the LECs issued by OFGEM**
  - **Direct & self supplies: LECs retained**
  - **Indirect supplies: LECs passed on**
  - **Maximise the benefit for Partly Exempt schemes**

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## What else?

- “CHP LEC” serves a similar function to a “renewable LEC” for indirect supply purposes. **BUT THEY ARE SEPARATE SCHEMES!!**
- “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

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## Simplified Arrangements

- No LECs - reduced admin burden
- Only Direct or self supplies of electricity from a 'fully exempt' CHP are outside the scope of the levy
- Only Direct or self supplies of electricity from all 'partially exempt' CHPs are exempt until it reaches its QPO

Status lost to the end user if sold to a licensed utility for onward supply

- **No historical recourse**
- Direct supply means:
  - Contract involves only CHP operator and the customer
  - No electricity utility take ownership of output

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

- **The recipient of 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**
- **IMPORTANT: CHPQA certificates to be sent to the Secretary of State by 30 June each year**

## Exemption from registration following input reconciliation

- Review of supplier certificate
- Too much relief claimed – payment due to Customs
- The excess is a taxable supply (Deemed self supply).
- Ordinarily, this creates a CCL registration requirement. However, where this is only created by a review, Customs can exempt a person from the requirement to register.
- Where a CHP is already registered for CCL (e.g. partly exempt station on outputs) deemed supplies should be declared via CCL returns.

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# CCL 220X Tax Credits

- **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)**
- **Where a CHP is already registered for CCL (e.g. partly exempt station on outputs) any tax credits should be declared via CCL returns).**

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# Hydrocarbon Oils Duties (Reliefs for Electricity Generation) Regulations 2005

- **Regulations came into force on 1 January 2006 and introduced 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**

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

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

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## **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**

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# Assurance?

HMRC have to apply risk principles to assurance, the main areas for CHPs being:

- If the CHP holds a valid CHPQA and SoS certificate
- In CHP operators' records:
  - For 'exporting' schemes, check that all direct, indirect and self supplies within the QPO are covered by LECs
  - For simplified arrangements, allocation of QPO for direct and self supplies (no LECs)
- In suppliers records (Indirect supplies)
  - Check balancing / averaging periods

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## Budget 2006 – New Rates For CCL

<b>Taxable Commodity</b>	<b>Rate</b>
Electricity	£0.00441 per kilowatt hour
Gas supplied by a gas utility or any gas supplied in a gaseous state that is of a kind supplied by a gas utility	£0.00154 per kilowatt hour
Any petroleum gas, or other gaseous hydrocarbon, supplied in a liquid state	£0.00985 per kilogram
Any other taxable commodity	£0.01201 per kilogram

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# Budget 2007

- Package of budget measures for 2007...