HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Climate Change Levy: renewable energy & the carbon reduction commitment

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Summary

The Climate Change Levy (CCL) is a tax on business energy use, introduced in April 2001. The rates of tax vary according to the type of fuel supplied, though not directly with the carbon content of different fuels.[1] The levy is forecast to raise £1.8bn in 2015/16.[2]

General guidance on the operation of the CCL, as well as statistical data on its yield, is published by HM Revenue & Customs.[3]

Summer Budget 2015

Supplies of electricity generated from qualifying renewable sources have always been exempt from the levy. For these purposes, electricity is 'renewable source electricity' if it is generated from sources of energy other than peat, fossil fuel and nuclear fuel.[4]

In his first Budget after the 2015 General Election, the Chancellor, George Osborne, announced the exemption for renewable electricity would be scrapped: "Now that we have a long-term framework for investment in renewable energy in place, we will remove the outdated climate change levy exemption for renewable electricity that has seen taxpayer money benefiting electricity generation abroad."[5]

The Budget report stated that the exemption would be removed from 1 August 2015; in addition, "there will be a transitional period for suppliers, from 1 August 2015, to claim the CCL exemption on any renewable electricity that was generated before that date. The government will discuss the details of this transitional period with stakeholders over the summer and autumn, to determine an appropriate length for it."[6] HM Revenue & Customs launched a consultation on the duration of these arrangements the next month.[7]

It was estimated removing the exemption would raise £450m in 2015/16, rising to £910m by 2020/21.[8] In their impact assessment HM Revenue & Customs stated that they did not expect this measure to affect wholesale electricity prices: "as the business energy market is highly competitive, removing the exemption is not expected to significantly increase business energy bills." On the separate question of its environmental impact, HMRC stated, "the measure will have no direct impact on the achievement of UK Carbon Budget targets, as emissions from electricity generation are capped through the EU Emissions Trading System. The measure is not expected to impact on the UK's renewable energy target. The government is on track to meet its ambition for at least 30% of electricity demand to be met by renewable sources."[9]

Budget 2016

The CRC Energy Efficiency Scheme (also referred to as the 'CRC scheme' or 'CRC') is a mandatory carbon emissions reporting and pricing scheme to cover large public and private sector organisations in the UK (excluding state funded schools in England from

1 The main provisions for the CCL tax are set out in s30 & schedule 6 of the *Finance Act 2000*, as amended
2 Office for Budget Responsibility, *Economic & Fiscal Outlook*, Cm 9212, March 2016 (Table 4.6).
3 HMRC, *Excise Notice CCL1: a general guide to Climate Change Levy*, April 2016 & *Climate Change Levy & Carbon Price Floor Statistical Bulletin*, January 2016. Other guidance for businesses is collated on Gov.uk.
4 HMRC, *Excise Notice CCL1/4: electricity from renewable sources*, October 2015 para 2.1. Provision to this effect was made by para 19-20 to schedule 6 of *FA2000* & SI 2001/838 (regs 46-51).
5 HC Deb 8 July 2015 c331
6 *Summer Budget 2015*, HC 264, July 2015 para 2.150
7 HMRC, *Informal consultation on the transitional period following withdrawal of the Climate Change Levy (CCL) exemption for renewable source energy*, 7 August 2015
8 *Budget 2015*, HC 264, July 2015 p73 (Table 2.1 – item 23). See also, HM Treasury, *Summer Budget 2015: Policy Costings*, July 2015 p28.
9 HMRC, *CCL: removal of exemption for electricity from renewable sources*, 8 July 2015

April 2013), that use more than 6,000MWh per year of electricity and have at least one half-hourly meter settled on the half-hourly electricity market.[10]

In the Summer 2015 Budget the Government had announced it would consult on how it might simplify and improve the business energy efficiency tax landscape,[11] and a formal consultation was launched in September.[12] The paper noted that "the UK currently has an energy tax system where tax costs and implicit carbon prices vary significantly across different groups of businesses and within organisations", and argued that there was "potential to streamline taxes in a way that reduces variations in tax rates faced by different users, simplifies the tax system and strengthens the price signal", possibly by "replacing the CRC and CCL with a new energy consumption tax based on the CCL."[13]

In his Budget statement on 16 March the Chancellor announced that the Government would abolish the CRC scheme, and increase the rates of the levy rates to compensate for the lost revenue:" Many retailers have complained bitterly to me about the complexity of the carbon reduction commitment. It is not a commitment; it is a tax. I can tell the House that we are not going to reform it. Instead, I have decided to abolish it altogether. To make good the lost revenue, the climate change levy will rise from 2019. The most energy intensive industries, such as steel, remain completely protected, and I am extending the climate change agreements that help many others."[14]

In its summary of the responses it had received to the 2015 consultation, the Government has stated, "the majority of respondents agreed with the proposed move towards a single tax. There was broad support from respondents for abolishing the CRC in favour of a new tax based on the CCL. Respondents cited several benefits including simplicity, reduction in collection errors and a reduction in administrative burdens."[15] It is estimated that these changes will result in a one-off gain to the Exchequer of £425m in 2019/20.[16] HM Revenue & Customs' impact assessment of this measure states that as the levy "is not levied on the supply of energy to individuals and households so the measure is not expected to impact on their energy bills, family formation, stability or breakdown", while the replacement of the CRC scheme with higher CCL rates "is expected to lower inflation [and] we expect reduced costs to be passed on to consumers."[17]

10 Carbon Trust, *CRC Energy Efficiency Scheme*, ret'd 13/4/2016
11 *Summer Budget 2015*, HC 264, July 2015 para 1.258
12 Details are collated on Gov.uk. Responses were invited up to 9 November 2015.
13 *Reforming the business energy efficiency tax landscape*, September 2015 para 4.7-8
14 HC Deb 16 March 2016 c959
15 *Reforming the business energy efficiency tax landscape: response to the consultation*, March 2016 para 2.11
16 *Budget 2016*, HC901, March 2016 p85 (Table 2.1 – item 36). The Budget costing shows that the change will raise £25m in 2020/21. See also, HM Treasury, *Budget 2016 Policy Costings*, March 2016 p34
17 HMRC, *Climate Change Levy: main and reduced rates – tax information & impact note*, 16 March 2016

1. Introduction

The Climate Change Levy is one of a series of new environmental taxes introduced since the early 1990s: air passenger duty (1994), landfill tax (1996), CCL (2001), aggregates levy (2002) and the carbon price floor (2013). It is charged on industrial and commercial use of electricity, coal, natural gas and liquefied petroleum gas, with the tax rate varying according to the type of fuel used. The levy was designed to help the UK move towards the Government's domestic goal of a 20% reduction in carbon dioxide emissions between 1990 and 2010.[18]

In November 1998 the Labour Government published a report it had commissioned from Lord Marshall, then Chairman of BA, on the potential for using economic instruments to improve the industrial and commercial use of energy. One of Lord Marshall's recommendations was for "a 'downstream' tax on the final use of energy by industrial-commercial consumers, with the tax rates reflecting (at least in broad terms) the carbon content of different fuels." He argued that the tax "should aim, where possible, to increase incentives for the take-up of renewable sources of energy."[19] In his 1999 Budget the then Chancellor, Gordon Brown, confirmed that from April 2001 the Government would introduce a new levy, though it would be structured with regard to the energy content of fuels.[20] Following consultation, Mr Brown announced a series of modifications to the design of the tax in November that year, including an exemption for electricity generated from 'new' renewable sources of energy.[21]

At the time of the 2005 Budget, the Labour Government published research it had commissioned on the initial impact of the levy on emissions: its conclusions were summarised in a written answer:

> **Dr. Cable:** To ask the Chancellor of the Exchequer what the Government's assessment is of the impact of the climate change levy on carbon emissions; and how much of this impact it estimates is attributable to (a) the price effect and (b) other effects consequent upon its introduction.
>
> **John Healey:** The Government commissioned Cambridge Econometrics to carry out an independent evaluation of the Climate Change Levy (CCL). This evaluation, "Modelling the initial effects of the climate change levy", concluded that the levy is effective and should save over 3.5 million tonnes of carbon per annum by 2010. In particular, Cambridge Econometrics concluded that the announcement effect of CCL in Budget 1999 will, in combination with the price effect, have reduced energy demand in the commerce and public sector by 14.6 per cent. by 2010. Cambridge Econometrics attribute most of the emissions savings to the announcement effect. However, because these two effects

18 Thomas Pope & Barra Roantree, *A survey of the UK tax system: Institute for Fiscal Studies Briefing Note BN09*, November 2015 p22
19 HM Treasury, *Economic instruments and the business use of energy: a report by Lord Marshall*, November 1998 p3
20 HC Deb 9 March 1999 c81
21 *Pre-Budget Report*, Cm 4479 November 1999 para 6.32

> interact in CE's model, it is not possible to apportion precise carbon savings to either effect in isolation.[22]

The review was of considerable length, though the Budget report gave a one page summary:[23]

Box 7.2: Assessment of the climate change levy package

The climate change levy (CCL) is part of a package of measures to tackle climate change, including climate change agreements (CCAs), enhanced capital allowances for energy-saving technologies, and support for business energy efficiency and renewable energy technology through the Carbon Trust. An independent evaluation by Cambridge Econometrics has examined the effect of the levy since its announcement in Budget 1999 and introduction in April 2001. The main conclusions are that:

- **CCL should deliver estimated annual carbon dioxide savings of over 3.5 million tonnes of carbon (MtC) in 2010 – well above the 2 MtC figure forecast at the time of its introduction;**
- **the announcement of CCL in Budget 1999 is estimated to have reduced energy demand by 1.2 per cent in 2000 in the commerce and public sector. This reduction in energy demand is estimated to grow to 13.8 per cent in 2003 and 14.6 per cent in 2010 in combination with price effects; and**
- **CCL is estimated to increase good quality combined heat and power capacity by 1.2 gigawatts of electricity by 2010, and to encourage renewable energy sources, because generation from these sources is exempt from the levy.**

Chart A illustrates how modelled energy demand and carbon dioxide emissions are reduced through to 2010. Chart B shows carbon dioxide savings from the CCL by fuel user. The biggest saving is in the commerce and public sector. Savings from CCL are lower in the industrial sectors, which generally benefit from the discounts from CCAs.

Chart A: Estimated reduction in energy demand and CO_2 emissions from the climate change levy

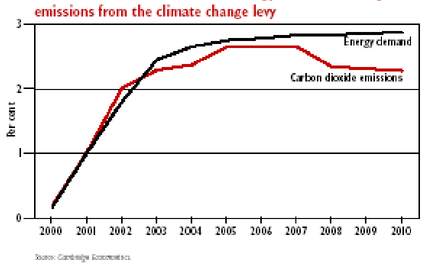
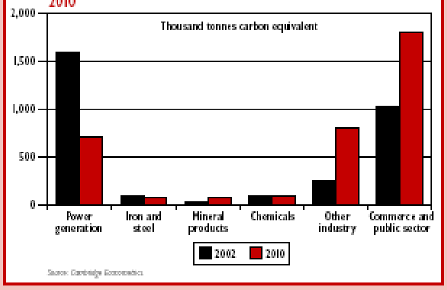


Chart B: Estimated CO_2 savings by user from CCL in 2002 and 2010



Introduced as part of the CCL package, CCAs allow 80 per cent discounts on the CCL for energy-intensive sectors that agree to make energy saving improvements. Cambridge Econometrics estimates that a further 0.5 MtC per year would be saved in 2010 if the levy were applied at the full rate across all business sectors. In contrast, audited findings from the sectors that signed CCAs suggest that the absolute saving against baselines was 4.5 MtC for the first target period of 2001 to 2002.[a] This shows that CCAs have been effective, yielding greater savings than through simply applying the full rate CCL to all business sectors.

[a] Climate change agreements results of the first period assessment, Future Energy Solutions, April 2003 (revised July 2004). Available at www.defra.gov.uk

The background to the introduction of the levy is discussed at more length in an older Library paper.[24]

22 HC Deb 8 February 2006 cc 1248-9W
23 HC 372 March 2005 p159
24 *Climate Change Levy, CBP235, 20 November 2009*. Of related interest see, Professor David Pearce, *The United Kingdom Climate Change Levy: a study in political economy*, OECD February 2005

2. Exemption for renewable energy

2.1 Operation of the exemption

HM Revenue & Customs' guidance for the industry explains how the exemption for renewable source electricity has worked in practice:

> Electricity utilities buy quantities of renewable source electricity from generators over agreed periods of time, and enter into separate agreements with customers to supply them with electricity designated as coming from a renewable source.
>
> The exemption works on the basis that renewable source electricity is acquired by an electricity utility and offered for sale to a business or public sector consumer under the terms of a renewable source contract.
>
> The Office of the Gas and Electricity Markets (Ofgem) and the Northern Ireland Authority for Utility Regulation (NIAUR) certify that renewable source electricity has been produced by an accredited generator.
>
> Certification is in the form of Renewables Levy Exemption Certificates (Renewables LECs) that are issued for each complete megawatt hour (MWh) of renewable electricity produced. NIAUR does this for renewable source electricity generated in Northern Ireland and the Republic of Ireland and Ofgem for renewable source electricity generated elsewhere.
>
> When renewable source electricity is supplied to a consumer under the terms of a renewable source contract, the supplier should notify Ofgem of the relevant Renewables LEC identifier.[25]

Ofgem collates information on its certification work on its website; this includes data on the certificates issued by the authority each year – with a breakdown by reference to country of generation, and technology group.

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[25] *Excise Notice CCL1/4: electricity from renewable sources*, June 2014 edition para 3.1. At present HMRC's online Manual on the Levy is being revised. The 2013 version is on National Archives site; the exemption is discussed from para 7800.

3. July 2015 Budget

In his first Budget after the 2015 General Election, the Chancellor, George Osborne, announced the exemption for renewable electricity would be scrapped: "Now that we have a long-term framework for investment in renewable energy in place, we will remove the outdated climate change levy exemption for renewable electricity that has seen taxpayer money benefiting electricity generation abroad."[26]

The Budget report stated that the exemption would be removed from 1 August 2015; in addition, "there will be a transitional period for suppliers, from 1 August 2015, to claim the CCL exemption on any renewable electricity that was generated before that date. The government will discuss the details of this transitional period with stakeholders over the summer and autumn, to determine an appropriate length for it."[27]

It was estimated that removing this exemption will raise £450m in 2015/16, rising to £910m by 2020/21.[28] At the time the OBR estimated that total receipts from the CCL would rise sharply from £1.6bn in 2014/15 to £2.3bn in 2015/16, then flatten off over the next two years before declining to £1.9bn by the end of the forecast period.[29]

Details of this measure are set out in a tax information and impact note, published alongside the Budget:

> **Current law**
>
> The exemption from CCL for supplies of renewable electricity is contained in paragraph 19 of Schedule 6 to the *Finance Act 2000* ('Schedule 6').
>
> To cater for variations in supply of and demand for RSE, paragraph 20 of Schedule 6 enables electricity utilities to match the acquisition of RSE with supplies that are exempt from CCL because they were made under the terms of a contract that contains a renewable source declaration. The matching is carried out over quarterly periods and allows the carry forward of credit and debit balances.
>
> The administrative provisions for the exemption are set out in Part IV of the *CCL (General) Regulations 2001*. For example, Regulation 48 determines that in order for electricity to be considered to be RSE for the purposes of paragraphs 19 and 20 of Schedule 6, it must be the subject of a LEC.
>
> **Proposed revisions**
>
> Legislation will be introduced in *Summer Finance Bill 2015* to amend paragraph 19 of Schedule 6 to the *Finance Act 2000* so that any RSE generated on or after 1 August 2015 is no longer

26 HC Deb 8 July 2015 c331
27 *Budget 2015*, HC 264, July 2015 para 2.150
28 *Budget 2015*, HC 264, July 2015 p73 (Table 2.1 – item 23). See also, HM Treasury, *Summer Budget 2015: Policy Costings*, July 2015 p28.
29 *Economic & Fiscal Outlook*, Cm 9088, July 2015 para 4.65, Table 4.5. Current forecasts are for receipts to peak in 2019/20 at £2.4bn, before falling to £2.2bn the next year (Cm 9212, March 2016: Table 4.6)

> eligible for the RSE exemption for CCL when supplied under the terms of a renewable source contract.
>
> Where an electricity utility has a credit balance at 1 August 2015 relative to the provisions of paragraph 20 of Schedule 6, it will be able to continue to make CCL exempt supplies under either existing or new renewable source contracts until the transitional arrangements end or their credit balance is used up, whichever is sooner.
>
> Where it has a debit balance at 1 August 2015, the utility will either have to acquire RSE generated before that date in order to continue to make exempt supplies in respect of its renewable source contracts, or it will have to make payment to HMRC to account for the deficit due at the end of the relevant averaging period.
>
> **Operative date**
>
> With effect from midnight on 31 July 2015, electricity generated from renewable sources will no longer be eligible for the CCL exemption for RSE when supplied under a renewable source contract.
>
> Electricity utilities that have accumulated RSE and renewable LECs relating to RSE that was generated before 1 August 2015 may continue to allocate these to renewable source contracts for a transitional period commencing on 1 August 2015. Such supplies can be exempted from CCL.[30]

Ofgem published a series of FAQs on how this decision would affect the administration of certification schemes.[31]

In its information & impact note, HMRC stated that it did not expect this measure to affect wholesale electricity prices: "as the business energy market is highly competitive, removing the exemption is not expected to significantly increase business energy bills." On the question of its environmental impact, HMRC stated, "the measure will have no direct impact on the achievement of UK Carbon Budget targets, as emissions from electricity generation are capped through the EU Emissions Trading System. The measure is not expected to impact on the UK's renewable energy target. The government is on track to meet its ambition for at least 30% of electricity demand to be met by renewable sources."[32]

The Summer Budget report also stated that the Government would launch a consultation in autumn 2015 on the business energy efficiency tax landscape and "consider approaches to simplify and improve the effectiveness of the regime."[33] Over the 2010-15 Parliament the Coalition Government had a commitment to increase the proportion of tax revenue accounted for by environmental taxes, which included the CCL.[34] In the Budget the Government announced that it would not

30 HMRC*, CCL: removal of exemption for electricity from renewable sources – tax information & impact note*, 8 July 2015
31 Ofgem, *Climate Change Levy (CCL) exemption Removed (Version 3)*, October 2015
32 *CCL: removal of exemption for electricity from renewable sources*, 8 July 2015
33 *Budget 2015*, HC 264, July 2015 para 2.153
34 The Coalition Government published updated figures for this policy goal in 2014 (HC Deb 26 March 2014 cc19-22WS). See also, Stuart Adam & Barra Roantree, *The Coalition Government's Record on Tax*, IFS Briefing Note BN167, March 2015 p21.

extend this commitment "as such a target does not always reflect the success of government policy in achieving environmental outcomes."[35]

3.1 Reaction

Press reaction to the Budget focused on other measures, though the *Financial Times* reported that the industry was taken aback by the speed with which the exemption would be scrapped:

> There had been industry rumours that the certificate scheme could end at some point in the future. "But I don't think people expected it to be completely withdrawn with less than a month's notice," said Frank Gordon, senior policy analyst at the Renewable Energy Association. "What business can make long-term investment decisions when one of its major revenue sources can be withdrawn at less than a month's notice?" …
>
> Renewable energy industry trade groups said the decision was insupportable for clean power investors. "Yet again the government is moving the goalposts, pushing some marginal projects from profit into loss," said RenewableUK's director of policy, Gordon Edge. "It's another example of this government's unfair, illogical and obsessive attacks on renewables."

The paper also reported concerns from environmental campaigners:

> "This is totally bizarre, making renewable electricity pay a carbon tax is completely counterproductive — like making apple juice pay an alcohol tax," said Friends of the Earth senior economics campaigner Alasdair Cameron … "If there are problems with overseas deals or renewable companies which may not be low carbon — like some biomass projects — they can be dealt with separately, but this blanket approach will create only more uncertainty, costing clean energy jobs and investment."[36]

In addition, the measure was flagged up by the Institute for Fiscal Studies as one of the measures increasing taxes, despite the Government's so-called 'tax lock'.

In its 2015 General Election manifesto the Conservative Party had stated that, in government, it would "not increase the rates of VAT, Income Tax or National Insurance in the next Parliament."[37] In a speech the Conservative leader David Cameron confirmed that this 'tax lock' also meant that there would not be any extension to the scope of VAT, or an increase in the ceiling to NICs.[38] In his Budget speech on 8 July the Chancellor confirmed that "in the coming weeks" the Government would legislate to "prohibit any increase in the main rates of income tax, national insurance and VAT for the next five years."[39]

Despite the tax lock, and the significant reductions in public spending that Mr Osborne announced at the time, it is important to note that the Budget included a series of measures to *increase* taxes, including the

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35 *Budget 2015*, HC 264, July 2015 para 2.152

36 "Scrapping of climate change exemption hits power utility Drax", *Financial Times*, 9 July 2015. See also, "Levellling the playing field? UK Government reduces effective of price of renewable power by £5/MWh", *Target UK Energy blog*, 9 July 2015

37 Conservative Party, *2015 General Election Manifesto*, April 2015 p27

38 "Cameron pledges to ban tax rises until 2020", *Financial Times*, 29 April 2015. Mr Cameron also publicised this commitment on Twitter.

39 HC Deb 8 July 2015 c336

increase in IPT. The Budget report estimates that, taken together, tax policy measures announced in the Budget are set to raise £5.1bn by 2017/18, rising to £6.5bn by 2020/21.[40]

In his post-Budget presentation, Paul Johnson, director of the IFS, noted "the figures are quite clear though – this was a tax raising budget … we told you before the election that post-election budgets tend to raise at least £5bn in tax – and this one expects to bring in a little more than that." (This analysis was published in the IFS' *Green Budget* in February 2015.[41]) Many of the measures to raise revenues are to reduce tax avoidance or evasion, though, as Mr Johnson went on to note, there were three other big tax increases – one of which had been the increase in the main rate of IPT:

> As well as an array of anti-evasion and anti-avoidance measures there are three other big tax increases: to insurance premium tax, to VED and to the Climate Change Levy. All look more or less opportunistic. The latter, which both increases tax on business consumption of energy –already taxed more heavily than household energy consumption – and reduces the relationship between tax paid and the carbon content of the energy, seems to have little coherent rationale.[42]

On 21 July the Chancellor gave evidence to the Treasury Select Committee on the Budget, and on this occasion was asked by Helen Goodman about the Budget's environmental impact:

> **Q252 Helen Goodman:** Notwithstanding the fact that you are committed to all of [the Government's targets for carbon reduction], you have removed the climate change levy exemption for renewables, removed the subsidy for onshore wind, restructured VED, and ended the zero carbon homes commitment. The papers produced by HMRC say that—just with respect to the climate change levy, not with respect to all four measures together—there will not be any impact on climate change. But have you checked that, looking at all those four together, there will not be any reduction in the rate at which we are reducing our carbon emissions from the measures you have taken?
>
> **Mr Osborne:** We can go through each one individually, but I think for different reasons they are not effective or good value for money, and I think there are better ways to meet these targets. Giving longer term contracts like we do with the levy control framework is a better approach for renewable energy. But we certainly intend to meet our targets and we intend to do it in a way that is as cost-effective as possible for British electricity consumers.
>
> **Q253 Helen Goodman:** Do you have any forecast or any scenario setting out how you think that the environmental objectives will be achieved on your new policy framework?
>
> **Mr Osborne:** Yes. I am happy to send you some analysis. If you take the renewable levy, which we scrapped, one-third of the costs of that were going to overseas electricity generators. If you

40 *Budget 2015*, HC 264, March 2015 p74 (Table 2.1: Total Policy Decisions)
41 "Chapter 10: Options for increasing tax", *IFS Green Budget*, February 2015 pp228-9 (Figure 10.1. Taxes and the electoral cycle). See also, "Taxes and elections: are they by any chance related?", *IFS Observations*, 15 March 2010.
42 "Paul Johnson's opening remarks", *IFS Summer post-Budget briefing*, 9 July 2105

> look at the Conservative commitment in the election, it was that we would meet our international obligations, but we do so in the most cost effective way possible, and that is certainly what I am doing.[43]

Subsequently the Chancellor wrote to the Committee on a couple of issues raised in the evidence session, including this. An extract from this letter, on the Government's case for removing the exemption for renewably sourced electricity, is reproduced below:

> The government has decided to remove the renewable electricity exemption for the Climate Change Levy (CCL). Again, this will have no direct impact on the achievement of UK carbon budget targets, as emissions from electricity generation are capped through the EU ETS which the UK participates in. Without action the CCL exemption would have deprived the exchequer of £4 billion of revenues over this Parliament, and one third of this value would have gone to supporting renewable electricity generated overseas. This electricity does not contribute to UK climate or renewable energy targets. This is not good value for UK taxpayers. It would also give overseas renewable generators double subsidy, as most already receive support from their own Government. Continuing to allow overseas generators to benefit from the CCL exemption could have risked undermining public support for renewable generation at a time when public concerns on the costs of renewable generation are already high.
>
> Since the exemption was introduced in 2001, more effective policies have been put in place to support renewable electricity generation. These target support directly at renewable generators, whilst the CCL exemption seeks to support renewable generation indirectly through stimulating demand. The OBR projected at the Summer Budget that support for low carbon generation under the Levy Control Framework would be £5.1bn in 2015/16 alone.[44]

3.2 Finance Bill 2015

Provision to remove the exemption for renewably sourced electricity from 1 August 2015 was included in the *Finance Bill 2015*. The explanatory notes to the Bill set out the Government's rationale for this measure as follows:

> Electricity generated from renewable sources has been exempt from CCL when supplied under a renewable source contract. The original purpose of removing tax from these supplies was to mitigate the additional cost of renewable source electricity and in so doing increase demand from non-domestic consumers.
>
> Energy policy has subsequently moved on, with far greater incentives available, targeted at renewable generation as opposed to supply. As the quantity of renewable source electricity available has increased, the CCL exemption has ceased to provide value for money. The exemption is therefore being withdrawn for electricity generated on or after 1 August 2015.[45]

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[43] Treasury Committee, *Oral evidence: Summer Budget 2015*, HC 313 of 2015-16, 21 July 2015 p34

[44] Treasury Committee, *HM Treasury – written evidence (BUD0006)*, September 2015

[45] Bill 57-EN, 15 July 2015 p118. See also, PQ6198, 16 July 2015.

Several Members raised concerns over the Government's decision to remove the exemption during the Second Reading debate of the Finance Bill on 21 July.

Introducing the Bill Treasury Minister David Gauke said, "over the next five years, the climate change levy exemption for renewable energy is due to cost £4 billion, one third of which would subsidise overseas projects that bring no benefit to the UK. This Finance Bill therefore takes urgent action to stabilise CCL revenue."[46] Caroline Lucas (Green) asked the Minister whether he agreed that "this measure, by being retrospective and incredibly disproportionate to the ends he is trying to achieve, will seriously disrupt the green energy sector?" Mr Gauke replied:

> I do not accept that point. Removing this exemption will achieve better value for money in the Government's support for low-carbon generation by targeting support directly at generators and preventing UK taxpayers from subsidising overseas renewable projects that bring no benefit to the UK. That was the weakness; that was the failure of the existing regime, and it is right that we address it.[47]

Speaking for the Opposition Shabana Mahmood argued that the decision to remove the exemption was "another example of the Government undermining investor confidence in renewable energy":

> They have already tried to halt the development of the cheapest form of clean energy by pulling the plug on onshore wind, and this continues that trend. It would be fair to say that since taking office they have put placating their Back Benchers' more strident views about renewable energy generation above the jobs and investment that would be created across our economy if we were genuinely able to move towards a low-carbon economy.[48]

Roger Mullin (SNP) characterised the measure as part of an 'attack' on the renewable energy sector: "combined with the Government's insane attack on wind generation, we can see an attack on renewable energy, an attack on Scotland's economy, and an attack on all those working to take better care of our environment."[49] By contrast, Sammy Wilson (DUP), spoke in favour of this change:

> Given that many of the companies involved are owned abroad, the tax concession given to them was not benefitting people here in the United Kingdom. We also need to bear in mind not only that there is huge opposition to many of the renewable sources, on the grounds of aesthetics and environmental impact, but that people are becoming increasingly aware of the cost of switching from cheap fossil fuels to expensive renewable energy, in terms of fuel poverty and the impact on industry.[50]

In turn Ms Lucas argued the change was "like making people pay an alcohol tax on apple juice":

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46 HC Deb 21 July 2015 c1391. As noted, Ofgem publishes data on data on the certificates issued by the authority each year.
47 HC Deb 21 July 2015 c1391
48 *op.cit.* c1400
49 *op.cit.* c1409
50 *op.cit.* c1416

> The Government claim that it is intended to prevent taxpayers' money from benefiting renewable electricity generated overseas. In fact, it is a completely disproportionate measure that turns a policy that was designed to encourage low-carbon electricity into just an electricity tax for businesses … Removing the renewables exemption from the climate change levy will undermine investor confidence in renewable energy, and that we should instead be seizing the massive opportunities for jobs and investment that moving to a low-carbon economy would provide for this country.[51]

The impact of the Government's decision to remove the exemption was also raised in several PQs – for example:

> **Margaret Greenwood:** To ask Mr Chancellor of the Exchequer, if the Government will commission a detailed analysis of the potential effect on the electricity bills of public sector consumers on the proposed removal of the Climate Change Levy exemption.
>
> **Harriett Baldwin:** This Government takes its environmental responsibilities very seriously. We are committed to meeting our climate change commitments as cost effectively as possible. We are currently making good progress with emissions down 30% since 1990. Any loss that UK renewable generators face as a result of the Climate Change Levy (CCL) will be small compared to the total amount of support they receive from other Government policies. The renewable electricity generation sector will also benefit from the Government's recent cuts to corporation tax, which will save businesses over £10bn a year.[52]
>
> **Margaret Greenwood:** To ask Mr Chancellor of the Exchequer, if the Government will commission an analysis of the potential effect on the UK renewable electricity generation companies of its proposed removal of the Climate Change Levy exemption for renewable power.
>
> **Damian Hinds:** Removing the CCL renewables exemption will not increase wholesale electricity prices, and the energy market for businesses and public sector organisations is very competitive. Removing the CCL renewables exemption means the CCL will continue to add 5%-7% to public sector energy bills, which is consistent with estimates published by DECC. This provides a price signal to incentivise much needed energy efficiency improvements.[53]

The provision within the Bill to remove the exemption was one of the provisions selected for debate by the Committee of the Whole House, on 8 September 2015.[54] Introducing the clause the Exchequer Secretary, Damian Hinds, set out a number of arguments as to why, in the Government's view, the measure would not have a significant impact on either energy customers or the renewables sector:

> The change will not increase household energy bills, because the climate change levy is not charged on households. Business customers should not lose out from the change either. The business energy market is competitive and wholesale electricity

51 *op.cit.* c1429
52 PQ 8365, 7 September 2015
53 PQ 8368, 7 September 2015 , see also, PQ8150, 11 September 2015; PQ11037, 19 October 2015.
54 HC Deb 8 September 2015 cc 319-354. It now forms s49 of *Finance (No.2) Act 2015*.

> prices will not be increased as a result. Energy-intensive businesses are already exempt from 90% of the costs of the climate change levy for electricity by being in climate change agreements. The change will also not affect renewable generators' long-term investment plans. Most generators were expecting to receive a negligible value from the exemption by the 2020s.
>
> Of course, the renewables sector will also benefit from Government's recent cuts to corporation tax, which will save businesses over £10 billion a year, giving the UK the lowest rate of corporation tax in the G20. Lastly, the change will not affect the UK's ability to meet its climate change goals, as emissions from electricity generation are capped through the EU emissions trading system. Nor will it affect our ability to source at least 30% of electricity demand from renewables by 2020. The Government remain committed to meeting their climate change objectives but we believe we must do so in a cost-effective way.[55]

Speaking for the Labour Party Alison McGovern argued that the Government's approach "risks undermining an area of the economy that has some of the most promising prospects for the future." Ms McGovern moved a new clause to require the Government to formally assess the impact of this measure on renewable energy generators:

> [The new clause] asks Ministers a number of questions that are crucial to the future of the UK's green economy, its role in achieving a more balanced, productive economy, and the UK's role in the world. How does the removal of the exemption affect existing renewables generators and projects currently in the pipeline? What impact will clause 45 have on investor confidence? Finally, what does it mean for the UK's ability to meet its climate change commitments?[56]

Speaking for the SNP Roger Mullin argued that the proposals were "fundamentally changing the nature and purpose of taxation, particularly environmental taxation":

> By removing the exemption for renewable sources of electricity, the incentive for sustainable and environmental choices by business is diminished considerably. Thus the removal of the CCL exemption for renewables serves to tax good behaviour and change what was an environmental tax into just another revenue-raising tax. It confirms, if confirmation was needed, this Government's attack on the renewables sector.[57]

In response the Exchequer Secretary acknowledged that the exemption "has had some success in the past", but argued it was becoming redundant:

> By the early 2020s the total amount of renewable energy supplied will be greater than the total demand for electricity from all climate change levy-eligible businesses. The value of the exemption for generators would therefore be negligible by the early 2020s. For that reason, it would not have been a major factor in the long-term decision making of generators.[58]

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[55] *op.cit.* c321
[56] *op.cit.* c328, c333
[57] *op.cit.* c341
[58] *op.cit.* c343

Mr Hinds went on to argue that the Labour Party's new clause was unnecessary:

> New clause 2 put forward by the Opposition would require the Chancellor, six months after the passing of the Finance Bill, to publish a report detailing the impacts of clause 45. Such a report is not necessary in that timeframe. The Chancellor has already presented a report to the Treasury Committee, which was published on 26 August.[59]

In the event, the House approved the clause by 310 votes to 245, and rejected the Labour Party's new clause by 311 vote to 245. At the Report stage of the Bill the Opposition tabled a new clause with a similar purpose, although in the event it was not called.[60]

3.3 Transitional period

On 7 August 2015 HM Revenue & Customs launched an informal consultation on the duration of these arrangements, though the Government stated the transitional period was not expected to end at least before 31 March 2016. Responses were invited by the end of October 2015.[61] The consultation document had a series of FAQs on the transitional period, including a number of questions as to how customers may be affected; an extract is reproduced below:

> **Q18 I am a business or public sector customer. Will I be affected by this change?**
>
> A18 You may be affected if you have been purchasing electricity exempt from CCL under a contract that contains a renewable source declaration (a renewable source contract). Your supplier will become liable to account for CCL on supplies of renewable source electricity where this is generated on or after 1 August 2015. However, this change should not affect wholesale electricity prices and the business energy market is very competitive, meaning there should always be cheaper tariffs available for businesses to switch to.
>
> **Q19 I am signed up to a renewable source contract. Will I start to see CCL appearing on my bills from 1 August?**
>
> A19 Not necessarily. You should speak to your supplier to see how your contract will be affected.
>
> **Q20 I am signed up to a renewable source contract and am paying a premium price for 'green electricity'. Will I now have to pay CCL on top of that green premium?**
>
> A20 Your supplier may not be able to supply you with renewable source electricity that qualifies for the CCL exemption for the duration of your contract. You should speak to your supplier to see how your contract will be affected
>
> **Q21 I am a domestic customer. Will I now have to pay CCL on the electricity I purchase?**

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59 *op.cit.* c344

60 Rob Marris discussed the purpose of the clause during the debate (HC Deb 26 October 2015 cc96-100) , and Treasury Minister David Gauke reiterated the Government's opposition (cc127-8).

61 HMRC, *Informal consultation on the transitional period following withdrawal of the Climate Change Levy (CCL) exemption for renewable source energy*, 7 August 2015

> A21 No, supplies to domestic users are excluded from CCL, regardless of the source of the electricity.
>
> **Q22 I operate a charity. Will I now have to pay CCL on the electricity I purchase in relation to charitable activities?**
>
> A22 No, supplies to charities are excluded from CCL, regardless of the source of the electricity.
>
> **Q23 I qualify for exemption from CCL because of the nature of my business. Will I now have to pay CCL on the electricity I purchase?**
>
> A23 No, end use exemptions apply regardless of the source of the electricity.
>
> **Q24 I am in a Climate Change Agreement (CCA). Will I now have to pay the full rate of CCL on the electricity I purchase?**
>
> A24 No, the 90% reduction on CCL electricity rates for CCA participants applies regardless of the source of the electricity.[62]

In November the Government announced that in the light of this consultation exercise, the transitional period would end on 31 March 2018.[63]

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62 *op.cit.* pp6-7

63 *Autumn Statement*, Cm9162, November 2015 para 3.67

4. The Business Energy Efficiency Tax Landscape

As noted, in the summer 2015 Budget the Government stated it would consult on how it might simplify and improve the business energy efficiency tax landscape.[64] A formal consultation was launched in September.[65] Section 3 of the paper sets out the current range of business energy efficiency policies and regulations; this includes energy taxes and price signals -

> **Energy taxes and price signals designed to reduce consumption**
>
> 3.2 **The Climate Change Levy (CCL)** was introduced in 2001. It is levied on the supply of energy to business and public sector consumers. Each of the four main groups of taxable commodities (electricity, gas, coal and liquefied petroleum gas) has its own main rate per unit of energy. The main rates of the CCL are intended to change business behaviour to reduce energy consumption and ensure the UK fulfils its EU obligations under the Energy Tax Directive (ETD).
>
> 3.3 **The Carbon Reduction Commitment Energy Efficiency Scheme (CRC)** is designed to improve energy efficiency and cut emissions of large energy users in the public and private sectors, together responsible for around 10% of the UK's greenhouse gas emissions.[66] Participants are required to monitor and report their energy use and must buy allowances for every tonne of carbon dioxide they emit.

- which interact with tax exemptions, reliefs, and financial incentives:

> **Tax exemptions, reliefs and financial incentives**
>
> 3.4 Certain energy supplies are excluded from the CCL, including those to households, non-business activities of charities and to the smallest business users. Energy that is not used as a fuel, including mixed use (where it is used partly as a fuel and partly not) may also be exempt from CCL. Similarly energy supplied to combined heat and power plants (CHP) may also be exempt from CCL under certain conditions. Energy used in mineralogical and metallurgical processes has been exempt from the CCL since 1 April 2014.
>
> 3.5 **Climate Change Agreements (CCAs)** were introduced alongside the CCL. They have the dual policy aims of mitigating the impact of the CCL on energy intensive industry, and delivering energy efficiency improvements at least equivalent to the savings that would have been achieved were sectors required to pay the full main rates of CCL. CCAs are voluntary agreements giving eligible sectors a discount on the main rates of CCL in exchange for agreeing to energy efficiency targets. CCAs cover 53 sectors, ranging from primary industries through to manufacturing and service sector processes. This relief provides a 90% CCL discount on electricity and 65% discount on gas and other taxable fuels. Sites with CCAs are also exempt from the CRC scheme as long as over 70% of the site's energy is eligible for the CCA scheme.

64 *Summer Budget 2015*, HC 264, July 2015 para 1.258
65 Details are collated on Gov.uk. Responses were invited up to 9 November 2015.
66 Based on 2011-12 emissions data.

> 3.6 **Enhanced Capital Allowances (ECAs)** let businesses set 100% of the cost of certain assets against taxable profits in a single tax year. This means the company can write off the cost of the new plant or machinery against the business's taxable profits in the financial year the purchase was made. This can provide a cash flow boost and an incentive to invest in energy-saving equipment which can carry a price premium when compared with less efficient alternatives. ECAs are available for specific energy efficiency and low carbon technologies specified on the Energy Technology List,[67] which is managed by the Carbon Trust on behalf of DECC.
>
> 3.7 The Electricity Demand Reduction (EDR) pilot is a DECC fund to support projects that deliver lasting reductions in electricity demand through installation of energy efficiency measures[68] . Projects above a minimum size (50kW) are eligible to bid for funding through an auction. Successful projects are paid following delivery of the electricity savings. Phase II of the pilot was launched in June 2015 with £6 million available to be allocated in an auction in 2016. The purpose of the pilot is to test whether electricity demand reduction measures could participate in Great Britain's electricity capacity market and to learn lessons about electricity demand reduction.[69]

Box 1: The Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

The CRC was initially designed as a revenue neutral mandatory cap-and-trade scheme covering energy use emissions from large, non-energy-intensive organisations, including private sector companies and other bodies such as schools, universities together with Government agencies and departments. The coalition Government simplified the scheme in various ways, including removing the trading element and retaining the revenue raised for the Treasury. The scheme has been criticises by industry for being overly complicated.

The paper argued that there was "potential to streamline taxes in a way that reduces variations in tax rates faced by different users, simplifies the tax system and strengthens the price signal", by "replacing the CRC and CCL with a new energy consumption tax based on the CCL.":

> **Taxes and price signals**
>
> 4.6 The government is committed to delivering a tax system that is simple, effective and economically efficient. A price signal is an important component of the policy landscape in reducing demand for energy.
>
> 4.7 The UK currently has an energy tax system where tax costs and implicit carbon prices vary significantly across different groups of businesses and within organisations. A number of stakeholders have argued that this has weakened the effectiveness of tax as a price signal to save energy and cut emissions.
>
> 4.8 The government believes there is potential to streamline taxes in a way that reduces variations in tax rates faced by different users, simplifies the tax system and strengthens the price signal.

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67 Enhanced Capital Allowances are also available for certain items not on the Energy Technology List.

68 Further detail on the EDR pilot, including projects supported through Phase I, can be found at https://www.gov.uk/electricity-demand-reduction-pilot

69 *Reforming the business energy efficiency tax landscape*, September 2015 pp9-10

This consultation proposes doing this by replacing the CRC and CCL with a new energy consumption tax based on the CCL.

4.9 There is also significant variation in the tax costs across fuels, with CCL and CRC tax rates significantly higher for electricity than other taxable fuels. Implicit carbon prices on electricity include not just current energy tax and direct prices, but also indirect costs relating to other energy policies that are outside the scope of this consultation.

4.10 The Institute for Fiscal Studies, as well as the Committee on Climate Change and many other stakeholders, have advocated that the more even the implicit carbon price across the economy, the more likely energy efficiency/decarbonisation will be carried out at the least cost to business, as the strength of incentive is more consistent across different parts of the economy: *'If different users face different prices, then those facing a higher price would spend more per unit of abatement (emission reduction) than those facing a lower price. This creates an efficiency cost: the same abatement could be achieved at lower cost by shifting abatement effort from the high-price to the low-price consumer.'*[70]

4.11 The government is open to views as to the balance of tax costs across fuels, such as gas and heating oil, in the context of its objective to meet its carbon commitments cost-effectively.[71]

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70 *Energy use policies and carbon pricing*, November 2013 (pp4-5)

71 *op.cit.* pp14-15

5. Budget 2016

In his Budget statement on 16 March the Chancellor announced that the Government would abolish the CRC scheme, and increase the rates of the levy rates to compensate for the lost revenue:

> Many retailers have complained bitterly to me about the complexity of the carbon reduction commitment. It is not a commitment; it is a tax. I can tell the House that we are not going to reform it. Instead, I have decided to abolish it altogether. To make good the lost revenue, the climate change levy will rise from 2019. The most energy intensive industries, such as steel, remain completely protected, and I am extending the climate change agreements that help many others." [72]

The Budget report gave more details of these changes, confirming that provision to increase the main CCL rates in 2019 would be included in the Finance Bill 2016:

> **2.170 Reform of business energy taxes** – Following consultation on simplification of the business energy efficiency tax landscape, the government will:
>
> - abolish the Carbon Reduction Commitment (CRC) energy efficiency scheme with effect from the end of the 2018-19 compliance year. Businesses will be required to surrender allowances for the final time in October 2019. The government will work with the devolved administrations on closure details for the reporting element of the scheme (36)
> - increase the main rates of Climate Change Levy (CCL) from 1 April 2019, to cover the cost of CRC abolition in a fiscally-neutral reform and incentivise energy efficiency in CCL-paying businesses (Finance Bill 2016) (36)
> - increase the CCL discount for sectors with Climate Change Agreements to compensate equivalently for the increase in CCL main rates. The CCL discount for electricity will increase from 90% to 93%, and the discount for gas will increase from 65% to 78% from 1 April 2019. The government will retain existing eligibility criteria for Climate Change Agreement schemes until at least 2023, with a target review to include a review of the buy-out price for periods 3 and 4 starting in 2016
> - rebalance the main rates of CCL for different fuel types to reflect recent data on the fuel mix used in electricity generation. In the longer term, the government intends to rebalance rates further to deliver greater energy efficiency savings, to reach a 1:1 ratio of gas and electricity rates by 2025
> - consult later in 2016 on a simplified energy and carbon reporting framework for introduction by April 2019.[73]

The report also stated the Bill would include provision to increase rates in line with inflation for the next two years, and to set the length of the transitional period for the withdrawal of the renewables exemption:

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72 HC Deb 16 March 2016 c959

73 *Budget 2016*, HC 1093, March 2016 pp112-3

> **2.171 Climate Change Levy (CCL) main rates (2017-18 and 2018-19)** – CCL main rates will increase in line with RPI from 1 April 2017 and 1 April 2018. (Finance Bill 2016) …
>
> **2.173 Climate Change Levy (CCL) exemption on renewably-sourced electricity** – As announced at Autumn Statement 2015, a transitional period for electricity suppliers to apply the CCL exemption on renewably-sourced electricity generated before 1 August 2015 will end on 31 March 2018. (Finance Bill 2016).[74]

Provision for these changes to the main rates of CCL and to CCL discounts, as well as for the end to the transitional period, are made by clauses 132-16 of the *Finance Bill 2016*.[75]

In its summary of the responses it had received to the 2015 consultation, the Government noted, "the majority of respondents agreed with the proposed move towards a single tax":

> 2.11 The majority of respondents agreed with the proposed move towards a single tax. There was broad support from respondents for abolishing the CRC in favour of a new tax based on the CCL. Respondents cited several benefits including simplicity, reduction in collection errors and a reduction in administrative burdens.
>
> 2.12 Some respondents suggested a simplified single tax needed to be coupled with other changes to ensure the tax is fairly distributed across all types of businesses, taking in to account carbon impacts. Respondents further emphasised the need for clarity and simplicity in designing a single tax.
>
> 2.13 Respondents were mixed in their views on whether rates should vary across participants. However, those responding to question 8 largely agreed that de minimis rules to protect the smallest businesses should be kept in place. In addition, many respondents highlighted the importance of existing CCAs in providing lower tax rates for Energy Intensive Industries (EIIs).
>
> 2.14 Respondents had mixed views on whether the balance between gas and electricity rates was correct. Many respondents felt that the balance should reflect the carbon intensity of the energy used. A number of respondents highlighted the ratio should be dependent on whether the primary objective was to reduce carbon or energy consumption.[76]

It is estimated that these changes will result in a one-off gain to the Exchequer of £425m in 2019/20.[77] HM Revenue & Customs' impact assessment of this measure states that as the levy "is not levied on the supply of energy to individuals and households so the measure is not expected to impact on their energy bills, family formation, stability or breakdown", while the replacement of the CRC scheme with higher CCL rates "is expected to lower inflation [and] we expect reduced costs to be passed on to consumers."[78]

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74 *Budget 2016*, HC 1093, March 2016 p113
75 The Explanatory Notes to the Bill have more details: Bill 155-EN (Vol 2), March 2016
76 *Reforming the business energy efficiency tax landscape: response to the consultation*, March 2016 p9
77 *Budget 2016*, HC901, March 2016 p85 (Table 2.1 – item 36). The Budget costing shows that the change will raise £25m in 2020/21. See also, HM Treasury, *Budget 2016 Policy Costings*, March 2016 p34
78 HMRC, *Climate Change Levy: main and reduced rates – tax information & impact note*, 16 March 2016

In its Economic & Fiscal Forecast the Office for Budget Responsibility noted that its estimate for levy receipts for 2015/16 had been cut, from £2.1bn to £1.8bn:

> Receipts from the **climate change levy (CCL)** are expected to be around £0.3 billion lower in 2015-16 than in our November forecast. This reflects lower than expected receipts from the carbon price floor (CPF) element of the CCL. The almost doubling of the carbon support rates in 2015-16 was expected to lead to a strong rise in CPF receipts this year. However, DECC data suggest that the switch away from coal-fired to gas-fired electricity generation (which has a lower tax rate) was much bigger than previously assumed, limiting the growth in CPF receipts.
>
> With CPF tax rates little changed until 2020-21 (when they rise in line with RPI inflation), the smaller tax base reduces receipts by at least £0.2 billion a year. In contrast to declining CPF receipts, we expect a rise in CCL receipts (excluding CPF), reflecting the July 2015 Budget decision to remove the CCL exemption from energy generated from renewable sources and the higher CCL rates from 2019-20 announced in the Budget to compensate for the loss of revenues from removing the carbon reduction commitment.[79]

5.1 Reaction

The Committee on Climate Change, supported the abolition of the CRC in a letter to the Government dated 11 March 2011. It called instead for increased focus on the Energy Savings Obligation Scheme,[80] which is a mandatory four yearly energy assessment scheme for organisations in the UK that meet the qualification criteria under EU regulations:

> We recommend that if the CRC Scheme is abolished then an alternative annual energy and emission reporting mechanism be introduced with board sign off, for example, enhanced in the ways we have previously advised as part of the Energy Savings Obligation Scheme.

The CCC also called for an increased focus on energy intensive SMEs:

> The CRC Scheme covers a range of large energy consuming organisations and energy intensive small- and medium-sized enterprises (SMEs). Evidence suggests that there is currently a gap in the overall policy framework to encourage energy efficiency and carbon reduction in SMEs, particularly in England. This is less of an issue in some other areas of the UK, for instance in Scotland where SMEs have access to interest-free loans for energy efficiency improvements.
>
> We recommend that if the CRC Scheme is abolished then this should be accompanied by measures to enhance the policy landscape to stimulate energy efficiency and carbon reduction in SMEs.[81]

The *ENDS report* found that the changes were generally welcomed by businesses, but there were concerns about how the changes to the CCL would affect energy consumption by large non-intensive energy users:

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79 *Economic & Fiscal Outlook*, Cm 9212, March 2016 para 4.81. A second Library note discusses the operation of the Carbon Price Floor (SN5927, 14 May 2014).

80 Gov.uk, ESOS guidance, website [as on 19 April 2016]

81 Committee on Climate Change, Letter from Matthew Bell to Paul van Heyningen at DECC about the abolition of the CRC scheme, 11 March 2016

> The abolition of the CRC and moves to a single energy tax are popular with much of the business community. But it remains to be seen whether CCL alone will drive energy-saving effort and investment among the 2,000 or so CRC participants. Unlike CCA [Climate Change Agreement] participants, these include major energy users such as retail chains where energy is only a modest part of organisational costs.
>
> To date, while there is evidence the CRC has driven change, there has been no clear evidence that CCL has done so outside Climate Change Agreements, other than through an 'awareness effect' when it was first introduced. The other concern has to be that the link between CCL and carbon reduction was weakened in the 2015 summer budget after business exemption for renewable electricity was removed.
>
> There is support for a more integrated energy and carbon reporting framework, but there are also important questions about how that reporting framework will work to drive behavioural change.

It also highlighted how larger energy users' liability under Climate Chante Agreements would be reduced further from 2019:

> Alongside this package, the Treasury report announced that existing Climate Change Agreement (CCA) scheme eligibility criteria will remain in place "until at least 2023, ensuring energy intensive industries remain protected". CCAs are sectoral agreements with DECC to achieve agreed energy and carbon-saving targets that give reductions on CCL in return.
>
> There are around 50 at present, which have been generally successful in their aims, but have already undergone several reviews and been streamlined. The Treasury said CCA targets will be reviewed from 2016 to ensure they deliver reductions promised.
>
> The Treasury also commits to increasing the CCL discount these sectors are getting to "to compensate equivalently for the increase in CCL main rates". This will mean the CCL discount for electricity will increase from 90% to 93%, and the discount for gas will increase from 65% to 78% from 1 April 2019, it confirmed.[82]

82 "Chancellor scraps CRC, beefs up CCL", *Ends Report*, 16 March 2016

BRIEFING PAPER
Number 07283, 20 April 2016