<u>Climate Change Levy (CCL)</u>

What is it?

- The CCL was introduced on 1st April 2001. It is a tax on the use of energy in industry, commerce and the public sector.

- It is designed to be revenue neutral and is balanced by a reduction of 0.3% in employers' NI contributions. There is no net gain for the public finances.

- Some of the revenues from the CCL will be used to promote the development and use of low carbon technologies through the Carbon Trust*.

Why was it introduced?

- The Levy broadly originates from the recommendations in Lord Marshall's October 1998 report 'Economic Instruments and the Business Use of Energy'.

- Its aim is to encourage and assist businesses in becoming more energy efficient, in order to reduce their greenhouse gas emissions.

How does it work?

- The CCL is applied at different rates, depending on the energy content of the different sources. As of April 2009, those rates are: LPG** – 1.050p/kg (pence per kilogram); coal – 1.281 p/kg; electricity – 0.470 p/kWh (pence per kilowatt hour); gas – 0.164 p/kWh

- The CCL is added to energy bills before VAT and, although there is no legal requirement to itemise it, it often appears as a separate item on bills.

Who does the CCL apply to?

- The CCL <u>applies</u> to industrial and commercial energy supplies to the industrial, commercial, agricultural, public and service sectors.

- It does not apply to: *fuel used by domestic consumers or the transport sector; fuel used for producing other forms of energy (such as electricity) or for non-energy purposes; energy used by registered charities for non-business use; and domestic level energy used by very small firms (roughly equivalent to the energy used by a six-bedroom house)*

What kind of energy is taxable under the CCL?

- The CCL <u>applies</u> to the following types of energy: natural gas; electricity; petroleum and hydrocarbon gas in liquid form; coal; lignite and coke.

- It does not apply to: *oils which are already subject to excise duty; electricity generated from new renewable energy; fuel used by 'good quality combined heat and power' schemes***; fuel used as a feedstock; electricity used in electrolysis processes; or primary aluminium smelting.*

Some commonly cited criticisms

Doesn't tackle carbon intensity

- The CCL on electricity does not take into account the carbon intensity of the fuel used to generate the electricity and is therefore less effective than a carbon tax for reducing carbon emissions.

Nuclear energy isn't exempt

- Electricity from renewables and CHP are exempt from the levy but nuclear generation, despite its carbon free nature, is not. Any further exemptions would mean an additional cost to industry or a loss of revenue to the Treasury.

Too much policy

- The CCL is part of a climate change policy environment which is too complicated and burdensome on industry.

How CCL works with CCAs and CRCs

- Climate Change Agreements (CCA's) provide organisations an opportunity to receive an 80% (65% from April 2011) discount on the CCL as long as they reach additional CO2 reduction targets.

    - There are currently 10 major energy intensive sectors and over thirty smaller sectors with agreements: *aluminium; cement; ceramics; chemicals; food & drink; foundries; glass; non-ferrous metals; paper; and steel.*

- Running concurrently with the CCL, but not CCAs, is the Carbon Reduction Commitment (CRC).
    - Under the CRC companies are asked to forecast their energy emissions one year ahead and buy allowances to cover their carbon emissions accordingly. It is hoped that this will encourage business to lower their emissions.
    - With funds from the sale of allowances, the government will pay out a bonus or deduct a penalty from an organisation depending on its energy saving performance
    - Companies will be allowed to trade surplus carbon allowances to companies who have underestimated their energy usage.
    - In addition, a league table will be published ranking each participant's performance. It is hoped that a low ranking will encourage firms to concentrate on carbon reduction.
    - The CRC began its introductory phase in April 2010. From April 2013, the CRC will become a fully fledged cap and trade scheme.

*The Carbon Trust is a not-for-profit company that provides specialist support to help businesses and the public sector cut carbon emissions, save energy and commercialise low carbon technologies.

**Liquefied Petroleum Gas

***This has to be verified by the CHP Quality Assurance Programme.