

Climate Change Levy

Background

- The UK Government has international climate change commitments as well as more demanding domestic targets for carbon dioxide reductions.
- Following recommendations from the Marshall Report on Economic Instruments the Government elected a fiscal approach to encourage UK industry to use less energy. The Climate Change Levy (CCL) was created as part of UK Climate Change Programme
- The CCL came into force 1st April 2001 following two rounds of consultation and satisfies the requirements under the of the EU energy tax directive.

What is it? How does it work?

- The levy is a tax on the business use of energy. It is designed to be broadly revenue neutral – balanced by a reduction of 0.3% of employers National Insurance Contributions (NICs). Some of the revenue is also be used to promote the development and deployment of low carbon technologies through the Carbon Trust.
- The energy supplier pays the levy to Customs and Excise and passes the cost through to customers.
- The CCL is applied at different rates, depending on the energy content of the different sources: LPG at 0.07 p/kWh; gas and coal at 0.15 p/kWh, and electricity at 0.43 p/kWh.
- 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.
- 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.
- Certain energy intensive businesses have Negotiated Agreements (NA) whereby they receive an 80% rebate on the levy in exchange for meeting agreed emissions reductions or energy efficiency improvements. The UK Emissions Trading Scheme was developed in the main to help companies meet their agreements.

British Energy's position

- Despite being a 'Climate Change Levy' carbon free nuclear electricity is treated in the same way as that from fossil generation. As such, it is not very well suited as an instrument for tackling climate change. British Energy, therefore, does not support the CCL implemented in this way.
- British Energy would support a CCL that takes into account the carbon intensity of electricity generation and which would therefore value the benefits of nuclear in tackling climate change.