

CONSULTATION ON A PROPOSED GB GREEN GAS LEVY

The Department for Business, Energy and Industrial Strategy (BEIS) has launched a consultation on its proposal for a Green Levy to fund its replacement for the Renewable Heat Incentive (RHI). It would apply in England, Wales and Scotland. This briefing explains the background to the proposed levy and its key features.

Background: From Renewable Heat Incentive to Green Gas Support Scheme

Dealing with greening the generation of heat for homes, business and industry is one of the more difficult challenges for the UK in reducing its climate impacts, but all the more important as the use of heat accounts for a third of the UK's Greenhouse Gas (GHG) emissions. The RHI was intended to provide a key incentive for the deployment of renewable heat generation facilities but uptake was lower than expected: The Government expected 513,000 installations to be RHI funded by 2020, but by May 2020, only around 80,000 had been accredited (and the House of Commons Public Accounts committee was already roundly criticising BEIS for low uptake in 2018). While much of the concern has related to the requirement for upfront funding which has dissuaded many consumers from purchasing and installing small-scale equipment under the domestic RHI, uncertainties over the amount of money applicants would receive in tariff payments and other bankability concerns have also created difficulties for the financing of the rollout of such projects (in contrast to small-scale solar projects under the feed-in tariff), as well as for the development of larger projects under the non-domestic RHI.

Further changes were made to improve operation of the RHI and to address the bankability concerns (including an 'assignment of rights mechanism' to allow for an investor to fund the purchase and installation of a renewable heating system and in return receive the rights to the RHI payments) but, in April 2020, BEIS consulted on plans to close the RHI and pursue different options for funding heat decarbonisation.

For some time there have been demands for a holistic heat strategy so that the UK can finally grapple with this major barrier to its climate ambitions. The Heat and Buildings Strategy is due 'later this year'. In the meantime, earlier this summer BEIS launched a consultation on plans to replace the RHI. ['Future Support for Low Carbon Heat – April 2020'](#) was published in April 2020 floating a Green Gas Support Scheme (GGSS) targeted initially at focusing support on further development of green gas in the form of biomethane injection into the natural gas grid; secondly proposing a Clean Heat Grant to give support for provision of heat pumps in households and small non-domestic buildings.

Key issues

- New Green Gas Levy to fund a new Green Gas Support Scheme which will apply to biomethane injection to the gas grid
- Most licensed gas suppliers will pay levy based on number of meters they serve
- Levy would apply from Autumn 2021
- Levy rates for 2021/2022 and 2022/23 to be published in Autumn 2021 with first payments in April 2022
- Suppliers expected to pass on costs to customers

Key elements of the proposed Green Gas Support Scheme

- Tariff-based mechanism to support development and operation of anaerobic digestion plants (with possible extension to other technologies such as hydrogen) based on volumes of biomethane injected into the grid by producers
- Tariff period of 15 years but possibly shorter
- Structure for tiered tariff payments to producers similar to RHI:
 - Tier 1: First 60,000 MWh of eligible biomethane: 4.9-5.5 p/kWh
 - Tier 2: Next 40,000 MWh of eligible biomethane: 3.25-3.75 p/kWh
 - Tier 3: Remaining eligible biomethane: 1.5-2.75 p/kWh
- Digression mechanism (reductions in tariff for new applicants) similar to RHI with possible annual tariff review mechanism
- Tariff guarantees offered similarly to the RHI
- Possible increased minimum percentage of waste as feedstock (beyond the non-domestic RHI levels) and possible strengthening of sustainability criteria to meet revised Renewable Energy Directive requirements
- Consideration of more radical reform to move to market-based mechanisms such as a supplier obligation (like the Renewables Obligation (RO)), or Contracts for Difference (CfDs)

Funding the Green Gas Support Scheme – the Green Gas Levy

"[Consultation on a Green Gas Levy – 22 September – BEIS](#)" sets out proposals for funding the GGSS. Whereas the RHI was funded by the taxpayer through the Exchequer, BEIS proposes a levy on licensed gas suppliers which it then expects would be passed on to consumers (in a similar way to the climate change levy and the supplier obligation levy on electricity suppliers to meet the cost of CfDs). The amount of support given to biomethane producers under the GGSS will depend on a number of factors including total number of projects delivered, and the amount of biomethane injected (which will vary over time and may be uncertain). As a result, a complex mechanism is needed to pass on the costs in an appropriate way to suppliers giving them a sufficient level of certainty as to what their ongoing liabilities will be.

The key elements of the proposed Green Gas Levy (which will be managed by Ofgem) are set out below:

- **Obligated suppliers:** all licensed gas suppliers will have to contribute to the levy. They will only be exempt if they supply exclusively green gas and there would be no pro rata reduction for lower levels of green gas supply. Off-grid fuel suppliers will not be charged.
- **Basis of charging:** Suppliers will be charged on a quarterly basis according to the number of meter points each supplier serves (irrespective of whether they are domestic or non-domestic meters). While this is the simplest basis of charging, BEIS will look at moving to charging on the basis of volumes of gas handled over time although there are significant challenges involved in achieving this.

- *Notification and payment of the levy rates:* The levy would apply from Autumn 2021. Once the GGSS is fully up and running, the levy rate for the financial year would be announced around 15 months before the financial year period (April – March) to which it applies; suppliers would then pay the levy at that rate on a quarterly basis for the whole financial year based on the number of meters it served in the previous quarter. For the first financial years of the GGSS (2021/2022 and 2022/23), both annual levy rates would be announced in Autumn 2021. The first payments would be made by suppliers in April 2022. Notifications would be made in such a way as to allow Ofgem to factor in collection of funds from customers into the relevant Price Cap level announcements. A table showing how this process is intended to work is set out in the Annex to this Briefing.
- *Calculation of the levy rate:* The levy rate is to be set on a 'pence per meter per day' basis, taking into account the maximum projected GGSS spend for the next year.
- *Credit cover:* Suppliers will have to lodge credit cover with Ofgem in the form of cash or standby letter of credit to cover at least the upcoming quarter's levy payment.
- *Distribution of costs:* BEIS recognises that it has no power to dictate how suppliers pass on costs to their consumers based on its Energy Act powers; it anticipates suppliers will simply pass on the costs on a per meter basis as well.
- *Budget control:* BEIS will rely primarily on in-built controls in the GGSS comprising a tariff guarantee budget cap and overall budget caps for biomethane. In addition, BEIS is considering setting a maximum amount that the levy could collect in any one year or publishing a maximum levy rate.
- *Financial management:* Suppliers will be required to submit quarterly meter readings which would be assessed against volume data for biomethane injection into the grid.
- *Enforcement:* Among powers to be made available to Ofgem to administer the scheme, 'mutualisation' of liabilities (similar to that under the RO) will allow Ofgem to seek payment from remaining obligated suppliers if one supplier defaults and there is insufficient credit cover.

Responses to the consultation must be received by 2 November 2020.

Comments

The proposals for the GGSS have already received a measure of support from the biomethane industry. The hydrogen industry will look at the proposals with interest, given the potential for the scheme to be extended to other technologies such as hydrogen injection.

Potential investors and lenders will be concerned to ensure that, from the outset, the design of the GGSS addresses the bankability concerns that have been identified in respect of the RHI. Such investor confidence in the GGSS and other renewable heat initiatives is essential for the future widespread deployment of renewable heat technologies which has not been delivered by the RHI.

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Annex - 2021/22 to 2023/24: Example of the Levy Cycle

Financial Year	Quarter	£ per meter-day levy rate	Supplier's quarterly meter-day figure ¹	Events and Timings
2021/22	Quarter 3 (Oct – Dec)	£X per meter-day	A3	<ul style="list-style-type: none"> Autumn 2021 – Green Gas Support Scheme launches. Autumn 2021 – £X per meter-day levy rate for 2021/22 announced. £Y per meter-day levy rate for 2022/23 announced. No GGL payments are collected from suppliers during Q3.
2021/22	Quarter 4 (Jan – Mar)	£X per meter-day	A4	<ul style="list-style-type: none"> No GGL payments are collected from suppliers during Q4.
2022/23	Quarter 1 (April – Jun)	£Y per meter-day	B1	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q3 and Q4 2021/22. This is determined using the £X per meter-day levy rate multiplied by the supplier's Q3 and Q4 2021/22 meter-day figure (A3 and A4). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
2022/23	Quarter 2 (Jul – Sept)	£Y per meter-day	B2	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q1 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q1 2023/24 meter-day figure (B1). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
2022/23	Quarter 3 (Oct – Dec)	£Y per meter-day	B3	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q2 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q2 2022/23 meter-day figure (B2). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
2022/23	Quarter 4 (Jan – Mar)	£Y per meter-day	B4	<ul style="list-style-type: none"> January – £Z per meter-day levy rate for 2023/24 announced. Ofgem calculates supplier obligations for Q3 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q3 2022/23 meter-day figure (B3). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
2023/24	Quarter 1 (April – Jun)	£Z per meter-day	C1	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q4 2022/23. This is determined using the £Y per meter-day levy rate multiplied by the supplier's Q4 2022/23 meter-day figure (B4). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
2023/24	Quarter 2 (Jul – Sept)	£Z per meter-day	C2	<ul style="list-style-type: none"> Ofgem calculates supplier obligations for Q1 2023/24. This is determined using the £Z per meter-day levy rate multiplied by the supplier's Q1 2023/24 meter-day figure (C1). Following the data validation processes, Ofgem notifies suppliers of their levy payment amount. Ofgem collects levy from suppliers.
Process repeats for the duration of a per meter point levy design being in place.				

1. Placeholders have been used for the purposes of this example to aid the reader's understanding of how the levy rate is calculated, while avoiding using exact figures. Please see the key below.

Key: A = 2021/22, B = 2022/23, C = 2023/24; 1 = Financial Quarter 1, 2 = Financial Quarter 2; 3 = Financial Quarter 3, 4 = Financial Quarter 4.

(E.g. A3 = 2021/22, Financial Quarter 3).

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