

Green Gas Levy Consultation

Presentation to the REA

14 October 2020



Department for
Business, Energy
& Industrial Strategy

Agenda

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1. Overview

- The government is committed to increasing the proportion of green gas in the grid as a practical, established, and cost-effective way of reducing carbon emissions.
- Proposals for the Green Gas Support Scheme (GGSS) were set out in the [Future Support for Low Carbon Heat](#) consultation that closed in July 2020.
- The GGSS is expected to prevent 21.6 million tonnes of CO₂ from entering the atmosphere over its lifetime.
- We are consulting on the funding mechanism for the GGSS, which will be a levy on licensed gas suppliers. It will not apply to 100% green gas suppliers.
- The [Consultation on a Green Gas Levy](#) (GGL) was launched on 22 September and will run until 2 November 2020. We welcome this opportunity to seek your views on our proposals.
- The GGSS is due to launch in Autumn 2021, with applications for biomethane support open for four years until Autumn 2025. The GGL will be collected from April 2022. Both schemes will be administered by Ofgem.

2. How the levy will work?

- BEIS will calculate an annual levy rate based on that year's projected GGSS deployment. This will be charged to gas suppliers at a flat-rate for each domestic and non-domestic meter point that they serve.
- The levy will be collected each quarter, and be used to pay biomethane producers quarterly via the GGSS.
- A meter point approach has the advantage that it is more straightforward to implement and provides a high level of certainty over the amount of funds collected through the levy.
- The intention is to transition to a volumetric levy design (based on consumption) in 2024/25, or as soon as possible after that, given the benefits of ensuring that levy costs are more closely aligned with gas consumption.

3. How we expect costs to be passed on to gas consumers

- We anticipate that costs will be passed on to gas consumers. We will implement a robust control framework that includes an annual budget cap to ensure impacts on bills cannot rise unexpectedly.
- We expect bill impacts to be relatively low, starting at approximately £1.40 at the beginning of the levy, before peaking at approximately £5.10 on an annual gas bill for an average household by 2028, assuming a transition to a volumetric levy.

4. Quarterly biomethane support payments

- The process for making payments to biomethane producers will follow a quarterly cycle. This will be designed to allow sufficient time to collect funds from suppliers through the GGL ahead of making payments to biomethane producers under the GGSS.
- Biomethane producers will make quarterly meter readings submissions at a fixed date during the quarter.
- Ofgem will confirm these against volume data on biomethane injection into the grid. Applicable payments will then be made based on biomethane injected over the previous quarter.
- This represents a change from the process seen for the Non-Domestic Renewable Heat Incentive, where meter reading submission due dates are dependent on registration or commissioning dates of each plant. The rationale for this is related to the change in funding source from Exchequer funding to a levy.

5. Backdated payments

- The GGSS and GGL are expected to launch in Autumn 2021.
- To allow gas supplier sufficient time to prepare, the first levy collection will be in April 2022. This results in a funding gap.
- To address this, we propose that the first levy collection in April 2022 will cover any biomethane injected in the first approximately six months of the scheme. We expect biomethane producers will receive these backdated payments in the first quarter of 2022/23.
- **Aim** – We aim to provide as much certainty as possible on dates to ensure biomethane developers are able to apply and accredit during this initial period.
- The requirement for the government to make these backdated payments will be set out in regulations.
- We do not anticipate significant cost implications for gas suppliers from the collection of funds for ~ 2 quarters in one levy payment, as GGSS costs are estimated to be relatively low during the first ~ 6 months of the scheme.

6. Compliance & enforcement

- The onus will be on gas suppliers to comply with the GGL obligations.
- A robust supplier compliance and enforcement regime is essential for the efficient and effective administration of the GGL, and for ensuring the funds are available for biomethane producers to receive payments under the GGSS.
- The main mechanisms proposed are **credit cover, mutualisation and public reporting**.
- **Aim** - enable Ofgem to effectively manage instances where licensed gas suppliers don't fulfil their GGL obligations such as to pay their levy payments by a specific due date for a given quarter.
- Gas suppliers are also obliged to lodge credit cover as part of their requirement to pay their levy payments.

7. Next steps

- The consultation will close on **2 November 2020** and we would encourage you to respond.
- Following this, responses will be analysed and it is expected that the government response will be published this winter.
- Following the government response, we will introduce regulations to deliver the GGSS and GGL, ahead of scheme launch in Autumn 2021.
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