

Climate Change Levy exemption for CHP

Guidance for exporting 'good quality' CHP generators & suppliers

Issue 5

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1. Introduction and background

- 1.1. This document sets out Ofgem's guidance for the administration of the Climate Change Levy (CCL) provisions for Combined Heat and Power (CHP). It is intended to be a working document and does not purport to anticipate every situation that may arise. This document is a guide. In the event of doubt or dispute, Ofgem will consider the situation on its particular facts, and in the light of the legislation.
- 1.2. The CCL was introduced on 1 April 2001. The levy is chargeable on the industrial and commercial supply of taxable commodities for lighting, heating and motive power by consumers in the following sectors of business:
 - Industry;
 - Commerce;
 - Agriculture;
 - Public administration; and
 - Other services.
- 1.3. Subject to certain exclusions, exemptions, reduced-rate and half-rate supplies, electricity is currently subject to the levy at a rate of £0.0043p/kWh.
- 1.4. One of the original reliefs from CCL is Qualifying Power Output (QPO) electricity supplied direct from a combined heat and power (CHP) station to the consumer (direct supplies).
- 1.5. It was announced in the 2002 Budget that in addition to the relief available for direct supplies, exemption from CCL would apply to CHP QPO electricity sold via a licensed supplier (indirect supplies) . The exemption for indirect supplies of QPO electricity was introduced by Finance Act 2002 and brought fully into effect by Part IV (A) of the Climate Change Levy (General) Regulations 2001 (SI 2001 No. 838) ("the Regulations") (inserted by SI 2003 No. 604). The regulations took effect from 1 April 2003. Those regulations introduce new functions and responsibilities for Ofgem in respect of certifying CHP QPO electricity.

- 1.6. These Regulations are available from the Office of Public Sector Information (OPSI) website, www.opsi.gov.uk or can be obtained from the Stationery Office (telephone 0870 600 5522).
- 1.7. Ofgem's responsibilities under the Regulations include:
- certifying electricity as Qualifying Power Output (QPO) electricity and issuing CHP LECs
 - retaining a record of each CHP LEC issued by Ofgem for 6 years
 - restricting CHP LECs in certain circumstances
 - undertaking reconciliation of output after each reconciliation span
 - receiving notification of the certificate number of each CHP LEC redeemed by a supplier
 - receiving copies of Notices regarding compliance with the Prescribed Conditions
 - providing information to HMRC in relation to the Climate Change Levy exemption for CHP
- 1.8. CHP Levy Exemption Certificates (CHP LECs) are issued as evidence that QPO electricity was produced in a fully exempt CHP station or a partly exempt CHP station¹.
- 1.9. Ofgem fulfils some of its responsibilities under the Regulations by using an interactive website called the CHP Information Management System (CIMS). Details on the use of CIMS are available in the CIMS User Guide, which is sent to all CIMS account holders. For details on how to become an account holder please refer to the CHP Registration Procedures available on our website at:
- http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/4135_CHP_Registration_procedure_1Aug03.pdf
- 1.10. Where the operator of the CHP station does not have web access and cannot use CIMS, the Monthly Electricity Production Template provided in Appendix 2 should be completed and returned to Ofgem each month.

¹ A fully exempt CHP station receives CHP LECs for all electricity production. A partly exempt CHP station receives CHP LECs on a pre-determined ratio of its production. See Chapter 5 for more details.
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- 1.11. Ofgem will determine what constitutes a single “station” by referring to the CHPQA Certificate. Each CHP station has a unique CHP scheme reference number assigned by the CHPQA administrator and is detailed on the CHPQA Certificate.
- 1.12. Ofreg will be responsible for administering the CHP CCL LEC provisions in respect of electricity produced or supplied in Northern Ireland or produced in the Republic of Ireland.
- 1.13. HM Revenue and Customs (HMRC) have published an updated notice CCL 1/2 Combined Heat and Power, for which the link is:

<http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal>
- 1.14. Contact details for Ofgem, Ofreg, Defra and HMRC are given in Appendix 1.

2. Eligible CHP stations

Introduction

- 2.1. Ofgem will issue CHP LECs to an eligible CHP station. An eligible CHP station is a CHP station which is capable of generating QPO electricity. Ofgem will be satisfied that a CHP station is capable of generating QPO electricity where that station holds a valid Secretary of State Combined Heat and Power Exemption Certificate² (SoS Certificate) and a CHPQA Certificate^{3&4}. A CHP station does not need to obtain a separate accreditation from Ofgem.
- 2.2. The Climate Change Levy (Miscellaneous Amendments) Regulations 2005 came into force on 22 July 2005. One of the effects of this legislation is that operators of CHP stations that only supply their electricity **directly** to the consumer, or consume it themselves, are no longer bound by the LEC requirements. This means that stations in this category, that were receiving CHP LECs from Ofgem, have been removed from the system and will no longer be required to provide monthly output data to Ofgem. Such stations still require a SoS and CHPQA certificate to gain CCL exemption.

Certificates

- 2.3. As mentioned in paragraph 2.4 below, CHPQA gives Ofgem the details of the SoS and CHPQA Certificates.
- 2.4. The CHPQA programme (a Quality Assurance Programme for Combined Heat and Power) is carried out by Future Energy Solutions (“the CHPQA administrator”) on behalf of Defra. Defra will issue a proforma entitled “Information required by Ofgem to issue Combined Heat & Power Climate Change Levy Exemption Certificates (CHP LECs)” to all eligible CHP stations.

² Issued under paragraph 148 of Schedule 6 to the Finance Act 2000

³ As defined in The Climate Change Levy (Combined Heat and Power Stations) Prescribed Conditions and Efficiency Percentages Regulations 2001 (Statutory Instrument 2001 No. 1140)

⁴ These criteria also apply to CHP stations located outside the UK

The proforma will be part completed by Defra with the information required for Ofgem to issue CHP LECs. This information includes:

- CHP Station Name & Address
- CHP Scheme Reference Number
- CHPQA Responsible Person name and their email address
- CHPQA Certificate Number and issue date
- Qualifying Power Output (QPO) (in MWh)
- Total Power Output (TPO) (MWh)
- Total Power Capacity (in MW)
- Fuel Composition (type and proportion) (e.g. gas, 100%)
- The date of issue of the station's current SoS Certificate; and
- The date the station's CHPQA Certificate was received by Defra (this is used for reconciliation purposes).

2.5 CHP stations must provide the following information on the proforma.

- Contact details to be used by Ofgem in relation to the administration of the CCL exemption. This contact will be used for any queries in relation to the CHP LEC issue.
- The identification numbers of any meters used to measure the total amount of electricity produced.
- If the station is accredited as being capable of generating renewable source electricity (ie if the station is accredited for the renewables CCL exemption), the renewable accreditation number and confirmation of the date the accreditation was gained.

2.6 The operator of the CHP station must give consent for Defra to disclose to Ofgem the information contained in the proforma. The CHP station operator

must sign the Written Notice required by all generators of CHP electricity as per

paragraph 20A(1)(d) of Schedule 6 to the Finance Act 2000. Regulation 51L requires generators of CHP electricity to send a copy of such notice to Ofgem (or, in Northern Ireland, Ofreg).

- 2.7 Defra will forward the completed proforma, containing the station details listed above, to Ofgem.
- 2.8 Ofgem will use the CHP Scheme Reference Number as a unique way of identifying each station.

CHP stations fuelled from renewable sources of energy

- 2.9 CHP stations fuelled by eligible renewable sources of energy (e.g. sewage gas) may be accredited as being capable of generating renewable source electricity. Such stations may receive Renewables LECs for that proportion of electricity that was produced from renewable sources. This category of station is entitled to two types of LECs – Renewables LECs and CHP LECs. This guidance deals only with the latter.
- 2.10 The CCL exemption for renewables is a separate piece of legislation⁵ relating to renewable source generating stations. Renewable source generating stations are accredited for the CCL exemption by Ofgem. CHP stations fuelled from renewable sources of energy, and accredited by Ofgem, must indicate that they are accredited under the renewable CCL exemption in the proforma issued by CHPQA.

⁵ Climate Change Levy Exemption (General) Regulations 2001
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3. Submission of monthly electricity production figures

- 3.1. For an eligible CHP station to obtain CHP LECs, the operator must provide Ofgem with monthly electricity production figures (expressed in kWh), via CIMS. (See the CIMS User Guide) Electricity production figures can be an estimate, a meter reading or half hourly data. The operator must specify which.
- 3.2. Where the operator of the CHP station does not have web access, the Monthly Electricity Production Template provided in Appendix 2 should be completed and returned to Ofgem each month.
- 3.3. Electricity production figures must be made in accordance with the metering requirements of CHPQA published by Defra. These can be found at:

www.chpqa.com
- 3.4. These metering requirements allow the use of estimated electricity production figures only in exceptional circumstances, for example to fill gaps in metered data caused by instrument failure. Estimated electricity production figures must be based on historical performance data. Ofgem will monitor the use of estimated electricity production figures.
- 3.5. For fully exempt CHP schemes the monthly electricity production figures notified to Ofgem must only include electricity which is consumed or to be consumed in the UK. Exports from the UK must not be included.
- 3.6. For partly exempt CHP schemes the monthly electricity production figures notified to Ofgem must include electricity, the QPO proportion of which, is consumed or to be consumed in the UK.
- 3.7. In any given month there is a maximum amount of electricity that can be certified as QPO electricity in respect of a CHP station . This is calculated by multiplying the notified electricity production in respect of that station for the relevant month by A/B, where:

A – is the QPO for the station as specified in the CHPQA certificate then in force for that station; and

B – is the TPO for the station as specified in the CHPQA certificate then in force for that station.

This is known as the “the QPO/TPO ratio”.

For fully exempt stations this will equal 1.

- 3.8. If multiple meters measure the station’s electricity production, only one electricity production figure is required. If a station uses more than one meter to measure the total electricity production (and the electricity production from these meters is of a different data type) the type of data which covers the greatest proportion of electricity production should be declared (e.g. half hourly data).
- 3.9. For audit purposes CHP stations must keep records of the basis of their monthly electricity production figures for 6 years. For stations providing electricity production figures based on half hourly data, records of the half hourly breakdown of this data should be kept for each meter. For stations providing electricity production figures based on meter readings, a record of the meter readings should be kept. Where relevant, records of the volume of electricity produced by the station that is exported from the UK each month should be kept for audit purposes.
- 3.10 The Regulations require Ofgem to “disregard any electricity production figures made known to it or of which it becomes aware after the end of the second month following the month in which the electricity is produced”. That is, Ofgem will not accept electricity output figures received more than two months after the end of the month in which the electricity output has been produced. Dates for data submission and LEC issue are set out in Appendix 7 to this guidance.
- 3.11 If electricity production figures are not provided before the dates set out in the schedule, CHP LECs will not be issued in the monthly CHP LEC issue. However, production figures notified after these dates will be taken into account at annual reconciliation. This means that we shall not correct the

figures at the time, but shall wait until the annual reconciliation.
Reconciliation is covered in more detail in chapter 8.

4. Consumption of electricity output in UK

Introduction

- 4.1. The Regulations require that CHP LECs are only issued in respect of electricity that represents electricity “consumed or to be consumed in the United Kingdom”.

Consumption Declaration

- 4.2. Ofgem will take the following approach in order to be satisfied that a CHP LEC is issued with respect to electricity that represents electricity consumed or to be consumed in the United Kingdom:
- The operator of a fully exempt CHP station that wishes to claim CHP LECs will be required to give Ofgem a Consumption Declaration. This must be provided annually, and must declare that all notified electricity represents electricity consumed, or to be consumed, in the UK.
 - The operator of a partly exempt CHP station that wishes to claim CHP LECs will be required to give Ofgem a Consumption Declaration. This must be provided annually and must declare that the QPO/TPO proportion of notified electricity represents electricity consumed, or to be consumed, in the UK.
 - Ofgem may, at any time, require that the annual Consumption Declaration be accompanied by additional information or evidence.
- 4.3. The CHP station name and CHP Scheme Reference Number must be stated on the Consumption Declaration. Operators responsible for more than one CHP station may submit a single Consumption Declaration accompanied by a list of CHP station names and CHP Scheme Reference Numbers.

- 4.4. The Consumption Declaration requires the operator of the CHP station to declare that, for the specified period, they will only claim CHP LECs for electricity that is consumed or to be consumed in the UK. A proforma Consumption Declaration is set out in Appendix 4 to this guidance. It must be signed by an appropriate officer of the operator company such as a director, secretary, or by a chief operating officer.
- 4.5. The Consumption Declaration must be submitted to Ofgem before the CHP LEC issue for electricity produced in the specified period. For example to issue CHP LECs for electricity produced in the year beginning 1 April 2004 the Consumption Declaration must be returned to Ofgem by 1 April 2004. CHP station operators who wish to claim CHP LECs part way through a particular year must submit the Consumption Declaration before any CHP LECs can be issued.

Consumption declaration audit

- 4.6. In addition to the audits on meters Ofgem will carry out annual audits of CHP stations. The purpose of the audit is for Ofgem to satisfy itself that the electricity which the operator of the CHP station notified to Ofgem, represents electricity consumed or to be consumed in the UK.
- 4.7. As part of these audits, Ofgem would expect the operator of the CHP station to provide it with contractual evidence to demonstrate that electricity notified to Ofgem, for the purpose of issuing CHP LECs, represents electricity consumed or to be consumed in the UK⁶.
- 4.8. During an audit, the operator of the CHP station will be required to provide Ofgem with evidence to support its Consumption Declaration. Ofgem will generally require the operator to provide the evidence set out in this guidance (see paragraph 4.11)
- 4.9. Ofgem may also require the operator of a CHP station to provide Ofgem with evidence to support its Consumption Declaration at any time, other than

⁶ Whilst contractual arrangements are a matter for the operator of the particular CHP station, examples of provisions upon which Ofgem would look favourably include that the electricity must be consumed in the UK, and that no part of it may be allocated by any person for consumption outside the UK.
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during an audit, if it has reason to believe that the Consumption Declaration may be false or inaccurate.

CHP Stations located overseas

- 4.10. For eligible CHP stations located outside the UK, Ofgem will expect to be satisfied that all the necessary arrangements have been made for import to the UK.
- 4.11. For eligible CHP stations located outside the UK, Ofgem would generally expect to see contractual evidence of:
- a) arrangements for the electricity to be exported to the national transmission system (taking account of the particular arrangements of the relevant national system);
 - b) sufficient capacity booking for transmission over any relevant national borders;
 - c) arrangements linking the CHP station and the Interconnector User; and of
 - d) sufficient interconnector⁷ capacity booking by the Interconnector User, for the appropriate period.
- 4.12. In any audit, Ofgem will check that no part of the electricity in question is being sold into another country or receiving subsidy elsewhere. Ofgem recognises that its case by case approach will need to take account of any long-term contracts entered into prior to the issue of this guidance.
- 4.13. Where Ofgem is no longer satisfied, that the electricity represents electricity consumed or to be consumed in the UK, Ofgem will advise Defra and HMRC of any CHP LEC which has been issued in such circumstances.

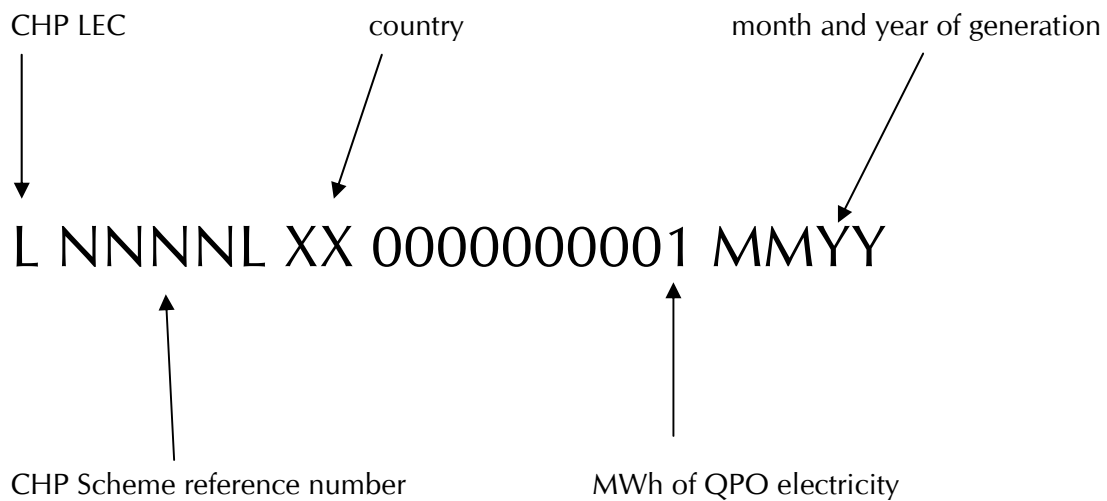
⁷ Use of the word “interconnector” in this document refers, unless otherwise indicated, to the interconnector between France and England.
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5. CHP LECs

- 5.1. Subject to regulation 51C of the Regulations Ofgem may certify electricity as QPO electricity based on the monthly electricity production figure submitted by the CHP station. Ofgem must issue CHP LECs in respect of electricity that it has certified as QPO electricity. Ofgem will certify electricity as QPO electricity where it has been produced by an eligible CHP station subject to the prohibitions referred to in paragraphs 5.14 and 5.15 below.
- 5.2. Ofgem will issue CHP LECs separately to each individual CHP station (ie each CHP station covered by a CHPQA Certificate and Secretary of State Certificate). Several CHP stations cannot join together and have CHP LECs issued in respect of their combined electricity production figures.
- 5.3. Ofgem will issue one CHP LEC for each MWh of certified QPO electricity. Certification of any electricity production less than 1 MWh will be carried forward to the following month of generation.
- 5.4. The circumstances in which Ofgem must neither certify electricity nor issue CHP LECs are detailed in 51C of the Regulations, reproduced in Appendix 6.
- 5.5. Please note that the issuing of a CHP LEC does not of itself guarantee that any electricity will be exempt from the CCL for the purposes of indirect supply. Exemption is a matter for HMRC.

CHP LEC Format

- 5.6. Each certificate will have a unique number, an example of which is given below. The CHP LEC number includes the station's CHP scheme reference number, the country in which the station is located, the MWh of QPO electricity and the month and year of generation.



- 5.7. For example, CHP LEC number L1234AEN00000001000403 is a CHP LEC issued to CHP scheme reference number 1234A. The EN shows that the station is located in England.
- 5.8. CHP LECs will be issued in ranges. For example, if 100 MWh of electricity production was certified as QPO electricity for scheme 1234A in April 2003 then the CHP LEC range L1234AEN00000000010403 - L1234AEN00000001000403 would be issued.

CHP LEC Issue

- 5.9 Ofgem will issue CHP LECs up to three months in arrears of the month of generation. Please refer to the CHP LEC issue schedule (Appendix 7) for more information.

- 5.10 In any given month, there is a maximum amount of electricity, produced by a partly exempt station, that can be certified as QPO electricity in respect of a CHP station. This is calculated using the QPO/TPO ratio described in paragraph 3.7, above.
- 5.11 The QPO and TPO for a station are detailed on the CHPQA certificate.. Defra gives Ofgem this information (See Chapter 2).
- 5.12 For a fully exempt CHP station the amount of electricity which may be certified as QPO electricity, and in respect of which CHP LECs will be issued, will represent the entire notified monthly electricity production figures for that station.
- 5.13 For stations entitled to both Renewable LECs and CHP LECs, the number of Renewables LECs is calculated before the number of CHP LECs⁸. The total number of LECs issued will be limited to the scheme's TPO. More detailed examples are provided in the HMRC Notice CCL 1/2 - Combined Heat and Power Schemes, for which the link is:

<http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal>

Non issuance of CHP LECs

- 5.14 The circumstances in which Ofgem must neither certify electricity nor issue CHP LECs are detailed in 51C of the Regulations (reproduced in Appendix 6).
- 5.15 If the operator fails to keep the required output records Ofgem can refuse to issue CHP LECs. For example, CHP operators must “*keep and maintain a discrete, proper, accurate and true record (the “CHP outputs record”) of relevant supplies. This is provided for in Schedule 2 of the Regulations⁹.*”

⁸The Renewables LEC issue takes place after the CHP LEC issue. CHP LECs can not be issued to CHP stations fuelled from renewable sources before Renewables LECs. This is to ensure that the TPO cap is not breached in terms of LECs issued.

⁹ Paragraph 8 of Schedule 2 to the Regulations provides that Ofgem will refuse to issue any CHP LEC where
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6. Restricting the validity of CHP LECs

- 6.1. If Ofgem becomes aware that CHP LECs have been issued in the circumstances set out in regulation 51D(1)¹⁰ of the Regulations, it will restrict¹¹ the validity of those CHP LECs to indirect supplies. These circumstances are:
- the CHP LEC was issued in respect of electricity production when no SoS Certificate was in force for the station; or that
 - the electricity production figures on which the CHP LEC issue was based were not made in accordance with the metering requirements of CHPQA , published by Defra.
- 6.2. The validity of a CHP LEC may also be restricted to indirect supplies if the operator fails to keep the required output records. For example, CHP operators must “keep and maintain a discrete, proper, accurate and true record (the “CHP outputs record”) of relevant supplies. This is provided for in Schedule 2 of the Regulations¹²
- 6.3. Should Ofgem restrict the validity of a CHP LEC, Ofgem will notify the restriction to the person to whom the CHP LECs were issued as soon as possible. Ofgem will also notify HMRC of the restricted CHP LEC identification numbers.

it reasonably believes paragraphs 2-7 of Schedule 2 to the Regulations are not being complied with by the operator of the CHP station (Schedule 2 is reproduced in Appendix 8).

¹⁰ No exemption certificate is in force, or there is a breach of metering standards

¹¹ Electricity which is the subject of a restricted CHP LEC ceases to be QPO electricity for certain purposes impacting on the operator (51F and 51G of the Regulations), but remains CHP electricity for the purposes of indirect supplies.

¹² Paragraph 2-7 of Schedule 2 to the Regulations provides that Ofgem restrict any CHP LEC where it reasonably believes paragraphs 2-7 of Schedule 2 to the Regulations are not being complied with by the operator of the CHP station (Schedule 2 is reproduced in Appendix 8).

7. Guidance for suppliers (indirect supplies)

Introduction

7.1. CHP LECs are part of the evidence that suppliers use to demonstrate to HMRC the amount of electricity supplied from good quality CHP sources to non-domestic customers in the UK. This electricity is exempt from the CCL. This chapter sets out how:

- suppliers should notify Ofgem of good quality CHP electricity allocated under a CHP source contract¹³;
- Ofgem confirms receipt of such notices, and how
- any disputes are resolved

Written notice of a supplier's intention to comply with the Regulations

7.2. Part VIII of Schedule 6 to the Finance Act 2000 establishes criminal and civil penalties for evasion, misdeclaration and neglect in relation to the CCL. Paragraphs 93 and 94 establish criminal offences in relation to recklessly or knowingly making materially false statements in any information provided in relation to the CCL, including information contained in the notice required by paragraph 20A (1)(d) of Schedule 6 to the Finance Act 2000.

7.3. Paragraph 20A (1) of Schedule 6 to the Finance Act 2000, amongst other things, requires suppliers to give a notice to HMRC agreeing that they will fulfil the conditions of exemption. Regulation 51L requires suppliers to send a copy of such notice to Ofgem (or, in Northern Ireland, to Ofreg). The notice will require suppliers to give some thought as to how they ensure that they fulfil the prescribed conditions and as to how they would provide evidence that they have done so.

¹³ Contract between supplier and final non-domestic consumer that identifies the supply as "good quality" CHP
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Redemption of CHP LECs

- 7.4. Where supplies of CHP electricity are allocated to a supply pursuant to a CHP declaration¹⁴, the regulations require the supplier to inform Ofgem, notifying the CHP LEC numbers. This is referred to as ‘redeeming’ CHP LECs. Note that suppliers should:
- redeem each CHP LEC as soon as electricity has been allocated to a supply; and should
 - keep an audit trail in relation to the ownership of all CHP LECs.
- 7.5. Where possible, suppliers should use the CIMS website to redeem CHP LECs. The CIMS User Guide provides details of how to do this. Alternative arrangements can be made available on request for suppliers without web access.
- 7.6. Each supplier is required to notify Ofgem of the quantity of electricity supplied and of the certificate numbers of CHP LECs which it redeems. Redeemed CHP LECs should include only those ranges of certificate numbers representing electricity supplied to a non-domestic final consumer. Ofgem does not need details of the CHP declaration contracts at the time of the CHP LEC redemption.
- 7.7. Please note that the issuing of a CHP LEC does not of itself guarantee that any electricity will be exempt from the CCL for the purposes of indirect supplies. Exemption is a matter for HMRC. The Finance Act and the Regulations require other criteria to be satisfied, such as the obligation on the supplier to give HMRC a CHP source declaration.
- 7.8. HMRC has asked that notifications should be sent to the following address:

¹⁴ A declaration, in respect of an ‘averaging period’, stating the amount of exempt CHP electricity supplied under a contract.

H M Revenue and Customs
Environment and Transport Taxes
Excise and Stamp Duty Directorate
3rd Floor West, Ralli Quays
3 Stanley Street
Salford
M60 9LA

7.9. HMRC has advised that an acceptable form of words for the declaration might be as follows:

“CLIMATE CHANGE LEVY

NOTIFICATION UNDER FINANCE ACT 2000, SCHEDULE 6 PARAGRAPH 20A

(1)(d)

EXEMPTION: ELECTRICITY PRODUCED IN COMBINED HEAT AND POWER STATIONS

I am writing to notify that [company name] wish to participate as a supplier of “CHP electricity with a view to seeking CCL exemption. I confirm that [company name] agree to fulfil the conditions in relation to such supplies insofar as they apply.

[Officer of the Company]“

7.10. If you have any queries about this notice, please contact HMRC on 0161 827 0924

Disputes

- 7.11. If any dispute arises over any CHP LECs issued, Ofgem may require information from any other supplier who was involved in transactions with those CHP LECs. As such, there should be a clear audit trail in relation to any such transactions. Ofgem will work with HMRC in any case where entitlement to a CHP LEC is disputed or unclear.

Supplier Contact Details

- 7.12. Suppliers with web access will be required to open an account on the CIMS website. Contact details must be supplied when registering for a CIMS account. Please refer to the CIMS Registration Procedures for more information. Alternative arrangements will be made for those suppliers who do not have web access.

8. Reconciliation of outputs (annual reconciliation)

Introduction

- 8.1. Self-assessment and certification under CHPQA takes place each year and covers the whole annual operation of the station (1 January to 31 December) . Ofgem will perform the reconciliation manually, outside the CIMS system.

Reconciliation timetable

- 8.2. Ofgem issues CHP LECs using the QPO/TPO ratio in the current CHPQA certificate. At the annual reconciliation, Ofgem will adjust LEC issue to reflect actual station performance during the year. CHP LECs that have already been issued will not be affected, but the reconciliation means that CHP LECs may be withheld from future issues, or more CHP LECs issued to bring this in to balance. Reconciliation will begin from the “reconciliation day”.
- 8.3. CHPQA will give Ofgem the information on the revised CHPQA Certificate. Ofgem must perform the reconciliation within 90 days of receiving this information. Ofgem usually receives this information in mid July each year.
- 8.4. Note that the timing of the reconciliation process means that part of a year’s output may be reconciled twice.

Example

A partly exempt station's CHPQA Certificate for the year 2005 reflects efficiency and energy performance (QPO/TPO) for the operating year 1 January to 31 December 2004.

Following self-assessment and certification for 2006 (that reflects actual efficiency and energy performance for 2005), Ofgem will reconcile the amount of QPO electricity actually produced in the station in 2005 with the amount of QPO electricity as represented by CHP LECs issued in 2005.

The "reconciliation day" will be the first day of the month in 2006 in which the new CHPQA Certificate was sent to the Secretary of State.

If the CHPQA Certificate covering 2006 (actual performance in 2005) is received in March 2006, then CHP LECs issued prior to March 2006 will be reconciled based on 2005 certificate (2004 actual efficiency and energy performance). All CHP LECs issued in 2005 will be finally reconciled in 2006, when the actual performance of the station in 2005 is known.

- 8.5. Ofgem performed the first reconciliation in June 2004 to reflect any change in the QPO to TPO ratio. That is, the change in efficiency and energy performance between the 2003 CHPQA certificate and the 2004 CHPQA certificate. Additionally, Ofgem will now take account of any change in annual generator output when performing annual reconciliation. Generators must notify Ofgem of any changes in output that they require to be included in the annual reconciliation.

Adjusting the number of CHP LECs issued

- 8.6. Once the reconciliation is complete, those schemes that have been issued with fewer CHP LECs than they should have been will be issued CHP LECs to make up the deficit. Any CHP LECs issued as part of reconciliation will have a unique identifier showing the year when reconciliation took place, for example:

L5555TENxxxxxxxxxx2006 to L5555TENzzzzzzzzzz2006.

8.7. For those schemes who have received too many CHP LECs, Ofgem will withhold CHP LECs until the imbalance has been corrected.

8.8. The examples below outline the reconciliation process.

Example 1:

EFFICIENCY RECONCILIATION					
Scheme	QPO	TPO	Efficiency	Output	LECs Issued
0000A	610,658	1,221,316	0.5	1,542,150,250	771,075
<p>1) The prior year scheme Total Efficiency figures are taken from CIMS (as above) 2) Actual figures for the current year are provided by Defra (as below)</p>					
Scheme	QPO	TPO	Efficiency	Output	LECs Due
0000A	532,110	1,108,563	0.48	1,542,150,250	740,232
<p>3) The new efficiency is multiplied by the output to get the amount of LECs which should have been issued given the new efficiency.</p> <p>In this example the scheme's efficiency has reduced by 0.02. This means that Ofgem will withhold 30,843 (740,232-771,075) LECs until the balance is redressed.</p>					

Note: When requested, Ofgem will perform reconciliation to include a change in output¹⁵ generated during the year compared to the output figure that is held in CIMS.

¹⁵ Any change in output from the output figure entered into CIMS
 Office of Gas and Electricity Markets
 Climate Change Levy Exemptions for CHP – Ofgem’s guidance

Example 2:

OUTPUT RECONCILIATION		
Scheme	Output	LECs Issued
0000A	1,542,150,250	740,232

1) The prior year scheme Total Output figures are taken from CIMS (as above)
2) Actual figures for the current year are provided by Generators wishing to have an output reconciliation performed.

Scheme	Output	LECs Due
0000A	1,653,132,300	793,504

3) The new output is multiplied by the new efficiency to get the amount of LECs which should have been issued given the new output.
In this example the scheme's output has increased. This means that Ofgem will issue 53,272 (793,504-740,232) LECs.

- 8.9. If a generating station has not been issued with CHP LECs for any period of time during the reconciliation period (because, for example, the operator missed the two month deadline, or an erroneous figure was entered into CIMS in a given month), then Ofgem will perform reconciliation to include a change in output.

Allocating reconciliation CHP LECs

- 8.10. Ofgem recommends that generators issued with reconciliation LECs retain these manually-issued LECs, and allocate them to direct supplies. An equivalent number of LECs already held in CIMS could then be allocated to indirect supplies. The Regulations require that CHP LECs issued as part of reconciliation should be allocated within 60 Days. If an equivalent number of CHP LECs are allocated from CIMS in place of CHP LECs issued as part of reconciliation, HMRC and Ofgem will be satisfied that CHP LECs issued as part of reconciliation have been allocated within 60 days.

- 8.11. For those CHP LECs issued manually, and that a generator intends to allocate to indirect supplies, the generator will be able to transfer those CHP LECs manually to a supplier (e.g. in a spreadsheet via email).
- 8.12. Suppliers must notify Ofgem when manually-issued CHP LECs have been allocated to a supply pursuant to a CHP declaration contract under Regulation 51(J). This is commonly referred to as ‘redeeming’¹⁶ CHP LECs.
- 8.13. Manually-issued CHP LECs reported to Ofgem by the supplier should include only those CHP LECs where the supplier has supplied the associated electricity to a non-domestic final consumer.
- 8.14. To redeem manually-issued CHP LECs, suppliers should email the unique CHP LEC number to chp@ofgem.gov.uk. The title of the email should read ‘Redeemed CHP LECs’. The email must include:
- supplier name;
 - name of the generator from which the CHP LECs have been received ;
 - number of CHP LECs being redeemed; and
 - unique CHP LEC numbers for the total number of CHP LECs being redeemed. –

¹⁶ Each supplier is required to notify Ofgem of the quantity of electricity supplied and the certificate numbers of CHP LECs which it redeems. CHP LECs redeemed by the supplier should include only those CHP LECs where the supplier has supplied the associated electricity to a non-domestic final consumer. At the time of the CHP LEC redemption Ofgem does not need details of the CHP declaration contracts.

Appendix 1 Contact details

For further information on Ofgem's role in administering the CCL exemption LEC provisions for CHP please contact the Environmental Programmes section.

Environmental Programmes,
Ofgem,
9 Millbank,
London,
SW1P 3GE

Fax: 020 7901 7387

Dedicated email: chp@ofgem.gov.uk

Contacts: Selma Ismael, Tel. 020 7901 7016
Peter Jennings, Tel 020 7901 7236

For further information on Ofreg's role in administering the CCL exemption LEC provisions for CHP in Northern Ireland please contact Ofreg.

Social and Environmental Affairs
Queens House
10-18 Queen Street
Belfast BT1 6ED

Fax: 028 90311740

Email gerry.donnely@ofregni.gov.uk
Contact: Gerry Donnelly, Tel. 028 90311588,

For further advice on the CHPQA process please contact the CHPQA administrator.

Tel: 01235 432 868
E-mail: chpqainfo@chpqa.com
Website: www.chpqa.com

For further information on the Secretary of State (combined heat and power) exemption certificates please contact Defra.

Tel: 020 7944 6681
Fax: 020 7944 6679
Website: www.defra.gov.uk

For further advice on any other aspect of the CCL please contact HMRC on 0845 010 9000, Monday to Friday from 8.00am to 8.00pm

Appendix 2 Monthly electricity production template

CHP stations should use the CIMS website to provide the electricity production figure.

This template should only be used by stations that do not have web access.

CHP Scheme Reference Number	Name of CHP Scheme	Month of generation	Output in kWh	Source of output data

Appendix 3 – Exceptions to the cut-off for notification of electricity production figures

CHP LECs cannot be revised or reissued on the basis of a change in electricity production figures after the end of the second month following the month in which the electricity is produced unless one of the specific exceptions set out in Regulation 51B(4) of the Regulations applies.

The exceptions are detailed in regulation 51D, regulation 51E and Schedule 2 paragraph 11. The relevant part of regulation 51D is reproduced below.

51D.—(1) *If the relevant Authority becomes aware that it has issued a CHP LEC in relation to—*

- (a) production when no exemption certificate was in force for the relevant station, or*
- (b) production in relation to which there is a breach of regulation 51B(5)¹⁷ (metering standards),*

Should either of these situations arise Ofgem must both restrict the validity of that CHP LEC to indirect supplies and notify the restriction to the person to whom the CHP LEC was issued (please refer to Chapter 6 *Restricting the validity of CHP LECs* of these procedures for more information).

Regulation 51E relates to Ofgem's records and of particular relevance in this context is that Ofgem's records must show whether the CHP LEC is restricted or unrestricted. Schedule 2, paragraph 11 describes the reconciliation process (please refer to Chapter 8 *Reconciliation of outputs* of these procedures for more information).

¹⁷ Where Ofgem has certified electricity as QPO electricity based on production figures which have not been made in accordance with the metering requirements of CHPQA Guidance Note 15 Version 1, published by the Department for Environment, Food and Rural Affairs.

Appendix 4 - Annual Declaration in relation to regulation 51C(3) of the Climate Change Levy (General) Regulations SI 2001/838 (CHP LECs)

I declare that I am duly authorised to sign this form for and on behalf of the Company, and on behalf of the Company I confirm that:

A all electricity which the Company notifies to Ofgem for the purpose of issuing CHP LECs as have being produced by the CHP Station during the Specified Period represents electricity consumed or to be consumed in the UK; and

B for any electricity so notified, the Company is able to provide Ofgem at any time, including for the avoidance of doubt and without limitation during an audit conducted by Ofgem, with the evidence specified in *Climate Change Levy exemption for CHP Ofgem's Procedures* from time to time as being required in order for Ofgem to be satisfied that the electricity represents electricity consumed or to be consumed in the UK; and

C any electricity so notified has not been allocated by the Company for consumption outside the UK.

On behalf of the company I acknowledge that Ofgem will not certify electricity nor issue a CHP LEC if Ofgem is at any time not satisfied that the electricity with respect to which the CHP LEC is to be issued represents electricity consumed or to be consumed in the United Kingdom.

On behalf of the company I acknowledge that I am aware that Part VIII of Schedule 6 to the Finance Act 2000 establishes criminal and civil penalties for evasion, misdeclaration and neglect in relation to the levy and in particular paragraph 93(2) of that Schedule establishes criminal offences in relation to recklessly or knowingly making materially false statements in information provided in relation to the levy.

Specified Period: 1 April [insert year] – 31 March [insert year]

Name of CHP Station:

CHP Scheme Reference Number:

Name of authorised signatory:

Position in Company:

Company:

Address, telephone number, fax number and email address:

Signature:

Date:

Appendix 5 - Annual Declaration in relation to 51C(3) of the Climate Change Levy (General) Regulations SI 2001/838 (CHP LECs)

PARTLY EXEMPT CHP GENERATING STATIONS

I declare that I am duly authorised to sign this form for and on behalf of the Company, and on behalf of the Company I confirm that:

A the proportion of the notified output that will be certified as QPO electricity which the Company notifies to Ofgem for the purpose of issuing CHP LECs as have being produced by the CHP Station during the Specified Period represents electricity consumed or to be consumed in the UK; and

B for any electricity so notified, the Company is able to provide Ofgem at any time, including for the avoidance of doubt and without limitation during an audit conducted by Ofgem, with the evidence specified in *Climate Change Levy exemption for CHP Ofgem's Procedures* from time to time as being required in order for Ofgem to be satisfied that the electricity represents electricity consumed or to be consumed in the UK; and

C any electricity so notified has not been allocated by the Company for consumption outside the UK.

On behalf of the company I acknowledge that Ofgem will not certify electricity nor issue a CHP LEC if Ofgem is at any time not satisfied that the electricity with respect to which the CHP LEC is to be issued represents electricity consumed or to be consumed in the United Kingdom.

On behalf of the company I acknowledge that I am aware that Part VIII of Schedule 6 to the Finance Act 2000 establishes criminal and civil penalties for evasion, misdeclaration and neglect in relation to the levy and in particular paragraph 93(2) of that Schedule establishes criminal offences in relation to recklessly or knowingly making materially false statements in information provided in relation to the levy.

Specified Period: 1 April [insert year] – 31 March [insert year]

Name of CHP Station:

CHP Scheme Reference Number:

Name of authorised signatory:

Position in Company:

Company:

Address, telephone number, fax number and email address:

Signature:

Date:

Appendix 6 - Circumstances in which CHP LECs will not be issued

Regulation 51C details in which circumstances Ofgem must not issue CHP LECs. This Regulation is reproduced below.

51C.—(1) The relevant Authority must neither certify electricity nor issue a CHP LEC as respects any electricity under any of the following circumstances.

(2) The first circumstance is where the quantity of electricity in question is less than 1 MWh.

However the relevant Authority may aggregate or disaggregate such quantities relating to the same station, certifying each complete MWh as appropriate.

(3) The second circumstance is where the relevant Authority is not satisfied that the CHP LEC, if issued, would represent electricity consumed or to be consumed in the United Kingdom.

For this purpose, the relevant Authority may have regard in particular to whether any part of that electricity is or may be allocated by the operator or a supplier for consumption outside the United Kingdom.

(4) The third circumstance is any one or more of the following—

- (a) the operator not providing the relevant Authority with such information, particulars, records and declarations as the relevant Authority may require for the purposes of this Part or Schedule 2;*
- (b) the operator not providing the relevant Authority with any updated readings the relevant Authority may require from any relevant electricity meter;*
- (c) any authorised person not being granted, on request, access at any reasonable time to the station in question;*
- (d) any authorised person not being permitted, on request and having been granted access to the station—*
 - (i) to inspect or test anything that is at the station and connected with the production or supply of any relevant electricity, and*
 - (ii) to inspect any records that are at that station and so connected;*
- (e) any authorised person not, on request, being granted access to any premises at any reasonable time to take updated readings from any relevant electricity meter;*
- (f) the operator having been notified of an assessment to a civil penalty or to penalty interest in relation to an event subject to this Part or Schedule 2 and, irrespective of any relevant review or appeal, that amount being unrecovered (for assessments, see paragraphs 106 and 111 of the Act; for review and appeal, see Part XI of the Act);*
- (g) any one or more of sub-paragraphs (a) to (e) not being satisfied within such time as the relevant Authority considers reasonable for the purpose in question;*

(h) the relevant Authority for any reason not being satisfied that the electricity in question should be certified as QPO electricity.

Ofgem may not issue any CHP LECs where they have reason to believe that paragraphs 2-7 of Schedule 2, to the Regulations are not complied with by the operator of the CHP station.

Appendix 7 - CHP LEC issue schedule 2006/07

Month and Year of Generation	A/ Final date for provision of monthly information to allow CHP LEC issue according to schedule (column B). If monthly information is not received by this date, CHP LECs cannot be issued.	B/ Date by which Ofgem seek to issue CHP LECs (if monthly information provided by date in column A)*
April 2006	Friday 30 June 2006	Friday 28 July 2006
May 2006	Monday 31 July 2006	Friday 25 August 2006
June 2006	Thursday 31 August 2006	Friday 29 September 2006
July 2006	Saturday 30 September 2006	Friday 27 October 2006
August 2006	Tuesday 31 October 2006	Tuesday 28 November 2006
September 2006	Thursday 30 November 2006	Friday 29 December 2006
October 2006	Sunday 31 December 2006	Friday 26 January 2007
November 2006	Wednesday 31 January 2007	Tuesday 28 February 2007
December 2006	Wednesday 28 February 2007	Friday 30 March 2007
January 2007	Saturday 31 March 2007	Friday 27 April 2007
February 2007	Monday 30 April 2007	Friday 25 May 2007
March 2007	Thursday 31 May 2007	Friday 29 June 2007

*** If you are also claiming Renewable LECs we will issue the CHP LECs after the Renewables LECs have been issued which is likely to be later than the dates shown.**

Appendix 8 Restriction of CHP LECs

The validity of a CHP LEC may be restricted to indirect supplies if Ofgem have reason to believe that paragraphs 2 to 7 of Schedule 2 to the Regulations are not fully met.

Paragraphs 2 to 7 of Schedule 2 are reproduced below.

CHP LEC and outputs record

2. A person to whom regulation 51H(1) applies must for the purposes of that regulation keep and maintain a discrete, proper, accurate and true record (the "CHP outputs record") of–

- (a) any relevant supply of electricity constituting an output of a the station in question for the purposes of paragraph 15(1) of the Act (supplies to stations);
- (b) any relevant supply in relation to which CCL is not accounted for because of an exemption provided for by paragraph 16(2), 17(3) or 17(4) of the Act (supplies from partially exempt CHP and self-supplies);
- (c) any relevant supply in relation to which CCL is not accounted for because of an exemption provided for by paragraph 17(2) of the Act (self-supply by autogenerator) (but only if the electricity in question is QPO electricity).

3.—(1) That record must also identify separately, according to the following categories, each MWh of QPO electricity that is an output of the station in question and allocate to each such MWh a CHP LEC issued in respect of QPO electricity.

(2) The categories are–

- (a) self-supplies of the electricity;
- (b) supplies made to the person who consumes the electricity;
- (c) supplies made to a person who makes a supply of the electricity.

(3) A CHP LEC (or any part of it) that remains allocated to a supply must not be allocated to any other supply.

(4) The allocation must be made no later than the 120th day following when the supply is treated as taking place.

(5) Any restricted CHP LEC must be identified as such in the record no later than the 30th day after the one on which the notification that the relevant Authority has restricted its validity to indirect supplies is received (see regulation 51D and paragraph 11(5)).

4. That record must also show the quantity of all electricity that is an output of the station in question but in relation to which no CHP LEC is issued (including for this purpose, and discretely identified, any renewable source electricity (see Part IV) or electricity produced when no exemption certificate is in force for the station).

5. That record must show –

- (a) when each relevant supply of electricity is treated as taking place and the recipient of each such supply;

(b) the CHP LEC (if any) relating to that electricity and, if different from the recipient, the identity of any person to whom entitlement to the CHP LEC is transferred;

(c) the date (or dates) on which each other event to which it relates occurs;

(d) the date on which each entry to the record is made.

6. *That record must be kept for 6 years starting from each reconciliation day to which it is relevant (see paragraphs 10 and 13(3)).*

7. *Subject to paragraph 6, that record must be made available on request and at any reasonable time to a person authorised by–*

(a) the Secretary of State, or

(b) the relevant Authority.

Appendix 9 : Glossary

A	
Accreditation	A procedural term, not found in the legislation. It refers to the renewable CCL exemption, and is obtained by completion of the CHPQA proforma.
'Agreement to fulfil conditions'	An undertaking to the Commissioners of Customs and Excise to fulfil exemption conditions. It takes the form of a written notice to Defra.
Allocation (of LECs) See also 'Redemption'	This term does not feature in the legislation, but is used by HMRC and Ofgem to describe the process of identification of CHP LECs in respect of a particular supply under a CHP Declaration Contract. This is part of the process by which suppliers can benefit from the CHP exemption.
Authority	The Gas and Electricity Markets Authority
Averaging period	A period of up to 2 years, in respect of which a 'renewable source declaration' or a 'CHP Declaration' is made. Averaging periods are of relevance to suppliers, not to generators.
C	
CCL	Climate Change Levy
CCL Exemption Certificate	A certificate issued under para 148 of Schedule 6 to FA 2000. The station may be either fully or partly exempt, for purposes of the CCL.
Certification	The process by which the Authority certifies QPO electricity.
CHP Declaration	A declaration, in respect of an 'averaging period', stating the amount of exempt CHP electricity supplied under a contract.
CHP Information Management System (CIMS)	Ofgem's interactive website for CHP LECs
CHP operator	The person registered with the CHPQA, in accordance with CHPQA Guidance Note 1.
CHPQA	CHP Quality Assurance
CHPQA Certificate	A certificate recognising the efficiency of a CHP station.
Climate Change Levy (CCL)	A tax created by FA 2000, Sched 6, Part I, para 1.
Consumption Declaration	A declaration, required by Ofgem under Reg 51C(3) as inserted by SI 2003 (No. 604), that the electricity is intended to be consumed, or is consumed, in the UK. This is of particular significance for CHP stations located outside the UK
D	
Defra	The Department for the Environment, Food and Rural Affairs

Direct supply	Supply by the CHP generator on the same site as the generating station.
E	
Eligible CHP station	This term does not appear in the legislation. Ofgem uses it to mean a CHP station capable of generating QPO electricity, holding a CHP Exemption Certificate from the Secretary of State) and a CHPQA certificate. Ofgem will issue CHP LECs to an 'eligible' CHP station.
Exempt CHP station	A CHP station the output from which is, by reason of the CHP exemption, exempt from the CCL. Full or part exemption from CCL is by means of a CCL Exemption Certificate issued by the Secretary of State.
H	
HMRC	Her Majesty's Revenue and Customs
I	
Indirect supply	Supply of CHP electricity via sale to a licensed supplier.
L	
Levy Exemption Certificate (LEC)	There are two types of LEC: <ul style="list-style-type: none"> • Renewables LECs (under 48 in Part IV in the General Regulations, SI 2001 (No. 838).); and • CHP LECs (under Reg 51B(8)) of the CCL (General) Regulations 2001, inserted by the Amendment Regulations of 2003.
M	
Monthly production figures	Output figures that CHP operators provide to Ofgem.
O	
Ofgem	The Office of Gas and Electricity Markets. The department that supports the Gas and Electricity Markets Authority.
Outputs record	See 'CHP LEC and outputs record', above.
Q	
QPC	Qualifying Power Capacity
QPO	Qualifying Power Output. The concept of QPO exists in relation to CHP LECs, but not to Renewable LECs.
QPO electricity	Electricity produced under a full or partial exemption. The concept of QPO exists in relation to CHP LECs, but not to Renewables LECs.
QPO/TPO ratio	The term 'QPO/TPO ratio' does not appear in the legislation. The information is to be found on the CHPQA certificate for the station.
R	
Reconciliation	The process by which Ofgem determines whether insufficient or excessive numbers of

	CHP LECs have been issued – in any given ‘reconciliation span’.
Reconciliation Day	Defined in para 10(1) in Sched 2 to SI 2003 (No. 604), in relation to the CHPQA certificate.
Reconciliation Span	Defined, in relation to a ‘Reconciliation Day, in para 10(2) in Sched 2 to SI 2003 (No. 604).
Redemption (of LECs)	This term does not feature in the legislation, but is used by Ofgem to describe the process of identification of CHP LECs in respect of a particular supply under a CHP Declaration Contract. This is part of the process by which suppliers can benefit from the CHP exemption.
Renewable LEC	A Levy Exemption Certificate issued in respect of electricity from renewable sources.
Renewable source electricity	Provided for in FA 2000, Sched 6, para 19(3), and defined in para 47 in the General Regulations SI 2001 (No. 838)
Renewable source contract	The contract with the end consumer.
Renewable Source Declaration	A declaration, in respect of an ‘averaging period’, stating the amount of renewable electricity supplied under a contract.
Restriction	A process whereby the validity of a CHP LEC is restricted to <i>indirect supplies</i> . Its purpose is to cover instances of non-compliance of which Ofgem is not immediately aware. Restriction means that the CHP operator cannot benefit from the exemption, but that a supplier to whom any relevant electricity has been sold can still Allocate the restricted LEC.
S	
Secretary of State’s Certificate	Otherwise known as the ‘CCL Exemption Certificate’.
T	
TPC	Total Power Capacity
TPO	Total Power Output