Combined Heat & Power (CHP) modules

Policy and incentive information

Source: Combined Heat and Power Association (CHPA), www.chpa.co.uk

Combined Heat and Power Quality Assurance (CHPQA)

What: CHPQA is a voluntary scheme used to define, assess and monitor CHP schemes for their energy efficiency and environmental performance. Gaining quality assurance is a requirement to ensure energy users can receive the full level of financial incentives available for their CHP.	**How:** Each CHP plant is evaluated on its fuel use, power generation and heat supply and provided with a Quality Index (QI) and power efficiency. Existing plant must have a QI of 100 and power efficiency of 20% to be 'Good Quality'. New plant must have a QI of 105.	**Outcome:** Various benefits are linked to whether a CHP is 'Good Quality' or not, such as Carbon Price Floor relief and Enhanced Capital Allowances.

Carbon Price Support*

What: The Carbon Price Floor (CPF) is a tax on all fossil fuels used to generate electricity. Units smaller than 2 MWe are exempt.	**Current:** 'Good Quality' CHP of >2MWe capacity is exempt from paying CPF tax on fossil fuels to generate heat. **Future:** From April 2015 'Good Quality' CHP of >2MWe will no longer be required to pay CPF tax on any fossil fuels used to generate electricity consumed onsite.	**Saving:** CPF tax for 2015/16 will be £1.75/MWh for gas used to generate electricity. From April 2015 gas used by 'Good Quality' CHP to generate electricity used onsite will be exempt from the tax, therefore operators will make a saving of £1.75MWh. In 2015/16 the rate will rise to £3.34/MWh.

Climate Change Levy*

What: The Climate Change Levy (CCL) is a tax applied to commodities such as electricity, gas and coal that is used to light, heat and power businesses.	**Details:** A good quality CHP is exempt from paying Climate Change Levy on all gas, and on all electricity used on site except exported electricity.	**Saving:** In 2014/15 'good quality' CHP generating power for on-site use makes a saving of £1.88/MWh on gas and £5.41/MWh on electricity.

*Denotes where incentive requires CHPQA

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Enhanced Capital Allowances*

What: The Enhanced Capital Allowances (ECA) energy scheme aims to encourage businesses to invest in energy-saving technologies.	**Details:** The ECA allows businesses to write off 100% of their energy saving investment against the taxable profits of the period in which they made the investment.	**Saving:** ECA can be claimed on the cost of all equipment required by a 'good quality' CHP system, including gas engines, electricity generators and heat recovery systems.

Non-Domestic Building Regulations

What: Emissions from non-domestic buildings must be 44% lower than 2006 levels and by 2019 all buildings must be zero-carbon.	**How:** New CHP plant in new or existing buildings must: • Meet a minimum CHPQA Quality Index (QI) of 105 and have a power efficiency of >20% • Be sized to supply not less than 45% of the annual total heating demand.	**More info:** More information can be found at www.planningportal.gov.uk

European Union Emissions Trading Scheme*

What: The EU ETS is the largest multi-country, multi-sector greenhouse gas emissions trading system in the world.	**How:** Allowances are allocated to participants through free allocation or auction. One allowance gives the holder the right to emit one tonne of CO_2. From 2013 to 2020 free allocation of allowances will be progressively phased out.	**Outcome:** Emissions from CHP care covered within the EU ETS if the plant is larger than 20MW(th). Free allocation is given to cover emissions from the production of heat in CHP when that heat is 'self consumed' or delivered to a non-ETS installation.

Capacity Market

What: Generators bid into a market which will pay them to supply electricity in times of energy system stress.	**Details:** DECC has confirmed that CHP plant will be eligible to bid into the market which begins in December 2014. Contract lengths of up to 15 years will be available to suit existing generators and potential new generation investments. Auctions will be held annually as necessary.	**Incentive:** Payment determined by auction, up to £75kW.

Carbon Reduction Commitment*

What: Carbon Reduction Commitment is a scheme designed to reduce carbon dioxide emissions by requiring the purchase of allowances for tonnes of CO_2 emitted from energy usage.	**How:** Organisations that used >6,000 MWh of electricity between 1st April 2012 and 31st March 2013 which was supplied through a settled half hourly meter, must register to phase 2 of the scheme. Allowances must be purchased for gas used to generate the electricity AND on the electricity generated.	**Outcome:** as supplied to CHP installations and all exported electricity is exempt from Carbon Reduction Commitment. Self-supplied electricity is liable. If the site is in the EU ETS, then all gas and electricity is excluded.

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