



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Wes Streeting MP
House of Commons
London
SW1A 0AA

17 June 2020

Dear Wes

FINANCE BILL CLAUSE 89-90

Thank you for your question at the Finance Bill Public Bill Committee on 16 June, on the effectiveness of the Climate Change Levy to drive down pollution and on the plans for implementing a green gas levy as announced at Spring Budget 2020.

The Climate Change Levy is a tax on the energy supplied to the non-domestic sector, and it aims to give businesses a greater financial incentive to improve their energy efficiency. Originally, the energy content of a unit of electricity was much greater than the energy content of a unit of gas, and electricity therefore attracted a much higher rate of tax than gas. However, as successive government policies have increased the share of renewables and reduced the the share of electricity that is generated from coal (from 40% of the total in 2012 to 7% in 2017), electricity is now a cleaner source of energy. That's why this government is legislating to rebalance Climate Change Levy rates so that gas will be taxed at a higher rate going forward, sharpening the incentive for the non-domestic sector to reduce its gas use. The rates legislated for 2020/21 and 2021/22 will be followed by steeper increases in 2022/23 and 2023/24, as announced at Spring Budget 2020. These increases will in part address the significant gas price reductions over past few years.

In addition to reducing non-domestic demand for gas, the government has separately announced the intention to introduce a green gas levy to support the decarbonisation of the gas grid. Currently, heating buildings accounts for 18% of

our emissions. To meet our net zero target, we need to reduce emissions from heat in buildings to almost zero, which involves switching to greener forms of heating. To help facilitate this transition, the Chancellor announced a new Green Gas Levy, which will support biomethane production and increase the proportion of green gas in the grid. A consultation setting out proposals to increase the proportion of green gas in the grid was launched on the 28th April and is open for responses until 7th July. BEIS will also consult on the levy mechanism aspect of the scheme in due course. The scheme is expected to begin in Autumn 2021 and will be available to eligible applicants until 2025.

I am copying this letter to the Chairs and other members of the Public Bill Committee, and am depositing a copy of this letter in the Library of the House of Commons.

Yours sincerely,

A handwritten signature in black ink that reads "Kemi Badenoch". The signature is written in a cursive, flowing style.

Kemi Badenoch
Exchequer Secretary to the Treasury