

Martin Horwood MP
16 Hewlett Road
Cheltenham GL52 6AA

1st March 2012

Dear Mr Horwood,

I am writing to express to you my grave concern over the adverse impact of reforms, announced in the Budget 2011, upon energy costs for combined heat and power (CHP) plants. In particular I wish to draw to your attention the significant impact this will have on universities and colleges which I represent in my role as Chief Executive of the Environmental Association of Universities and Colleges which is based within your constituency. I am raising this with you now as we need to have resolution to these issues in the 2012 Budget. **In particular, I am asking you to attend an event for MPs on the 5th March and to raise this directly with Ministers.**

At the heart of a significant number of our institutions is a combined heat and power (CHP) plant. This CHP plant provides the process steam and electricity requirements for the site in the most efficient way possible, supporting sector competitiveness and reducing our carbon. In the 2011 Budget, there were two key proposals to commence in 2013; charging the new Carbon Price Support tax on all fuel for CHP and removal of CHP electricity support, the Levy Exemption Certificate (LEC; the LEC was originally guaranteed to CHP plant until 2023). By charging an electricity tax on heat from CHP the Carbon Price Support proposals will levy a greater tax on efficient CHP plant than on less efficient 'power only' power stations. The removal of the LEC will discourage CHP plants from generating electricity and reduce their efficiency.

The combined effect of the LEC removal and introduction of the Carbon Price Support tax will be a **significant increase in university energy-related operating costs** in an already challenging market. The viability of a CHP plant as a means of mitigating rising energy costs over the long-term will be compromised, with inevitable strategic consequences for the site as a whole. A comprehensive briefing on this issue enclosed.

Whilst it is recognised that these reforms will have an impact, the Government's proposal – a flat rate exemption from the Carbon Price Support Tax – cannot compensate for the loss of revenues arising from introduction of the Carbon Price Support and removal of LECs. To remedy this situation a coordinated package of measures, as outlined below, needs to be announced in the Budget 2012:

- Exempt the fuel used for heat generation in CHP from the CPS
- Retain the CHP Levy Exemption Certificate until 2017
- Replace the LEC with an enduring direct support mechanism

We ask that, as a matter of urgency, you write to the Chancellor of the Exchequer highlighting the severity of the issue (copying in the Secretaries of State for Energy and Climate Change and Business, Innovation and Skills). Specifically we would ask you to:

- Highlight this issue in an Adjournment Debate (which MPs are currently seeking through the ballot process – we will inform you if and when it is due to occur)

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- Attend the Energy Intensive Industries All Party Parliamentary Group debate, '**Driving industrial competitiveness and decarbonisation: the role of Combined Heat and Power**', 7pm to 8.30pm, 5 March 2012, Portcullis House (details provided overleaf).

We would be happy to meet with you to discuss these matters further, to ensure that the implications of the current proposals are fully appreciated.

Yours sincerely,



Iain Patton
CEO Environmental Association for Universities and Colleges

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