POSITION PAPER

Taxes, charges and levies across energy carriers should reflect associated externalities.

- **Taxes, charges and levies** are three distinct factors addressing dissimilar barriers. The resulting policies are differing and must be assessed separately.

- **Energy taxes** in most cases generate income for national budgets and are not generally serving a price signalling function. This is due to the rather large ranger of tax rates applied throughout Member States. The current legal framework of the ETD only foresees minimum tax rates.

  Eurogas considers taxation an efficient energy policy tool. At the same time, we recognise that certain aspects of the ETD require revision.

  1. Technology neutrality. The ETD revision must ensure a level playing field for all commercially mature clean energy technologies. Furthermore, adequate and visible price signals for end-customers reflecting both energy content and CO2 intensity must be put in place.
  2. Tailor made solutions. Member States must maintain the flexibility to design tailor made solutions consistent with their energy mix and regional context.
  3. Taxing end consumption only. Taxation should continue to be applied only to end use leaving all energy supplies within the energy sector untaxed. This includes energy conversion and storage across all forms of energy to enable energy system integration.
  4. Favourable taxation for renewable and decarbonised gases. Clean energy such as renewable and decarbonised gases along with other clean energy sources should benefit from favourable taxation or tax exemptions. This price signal will ensure energy sources are taxed based on CO2 context and will send accurate market signals for industrial and private consumers.

- **Levies** financing renewables support schemes represent a substantial amount of the electricity bill in many countries e.g. Germany, Austria, Italy. This clearly reflects the cost of production and system integration of variable RES. The energy transition will require a massive capacity of renewable energy, including electrons and molecules. Increased electrification will necessitate even higher support schemes to meet demand. This calls for increased cost transparency and overall efficiency improvement so as to create a market-oriented mechanism around renewables.

- **Charges** refer to the cost of grid infrastructure comprising transmission and distribution networks (both in electricity and gas) being the regulated part of the business, which has to be adapted to respond to the overall increase in wind and photovoltaic energies. Charges must be transparent and provide the right price signal to drive cost-efficient choices of final customers.

  Electricity and gas end-user charges should be more cost reflective and transparent. This is key to ensure a level playing field in the decision-making process of end-users' investment choices. To achieve this cost-reflectiveness and transparency, the structure of the tariffs and other charges should reveal more efficiently the costs generated by different consumption patterns e.g. focusing on seasonal consumption that is the most

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demanding in terms of infrastructure investments. Furthermore, transparency should be given on the expected evolution of these charges, especially when massive infrastructure investments are planned.

Each energy vector must bear the cost of its own decarbonisation.

- In 2018, only 20% of the EU28 final energy consumption was electricity based and many parts of the economy will continue to rely on molecules in the future. Furthermore, in 2018 over 60% of EU28 electricity mix still had to become renewable and whereas further electrification is expected, climate neutrality cannot be achieved through electrification or decarbonising electricity alone. Natural, renewable and decarbonised gas will continue being imperative to 2030 and beyond and will dramatically reduce the costs of the energy transition.

- Each energy carrier's bill shall integrate only the cost, charges and levies linked to the production, transport and retail of that specific energy carrier. A cross subsidisation across energy carriers or sectors would create market distortions. By allocating the relevant energy system costs (including incentives and subsidies) to the respective energy carrier, adequate price signals are sent to energy consumers. Consequently, consumers can make an educated choice for the energy option that fits their preferences and requirements.

- Although it is understandable that lower electricity prices (which include charges and levies) are preferred, these costs reflect the current decarbonisation of the electricity system. Therefore, concealing them would lead to a distortion of competition with other energy solutions. A level playing field is primary. Given that other cost-efficient decarbonisation options are readily available at scale such as renewable and decarbonised gases, the energy system cost and the energy system price for end customers will be lower.

Carbon costs if aligned with EU Energy Taxation would incentivise decarbonisation.

- Tax exemptions/reductions on energy consumption provided to certain consumer groups or actions does not represent "fossil fuel subsidies". It is not the energy per se that is subsidised but a specific use of energy in a given sector due to general or regional economic policies, international conventions or reciprocity between Member States.

- The revision of the ETD could assess a potential change in the internalisation of carbon costs. However, an impact assessment would be required to evaluate the consequences for the whole economy.

- Carbon pricing has the potential to be an efficient policy instrument if it is designed in a market-oriented and technology neutral way for all technologies contributing to emissions reductions and aligned with the Energy Taxation System. This will ensure a level playing field concerning the competition of different forms of energy and technologies - if implemented in a harmonised manner mandatorily by all EU Member States.

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