

**Regulatory Affairs Department**

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**Subject:** Public consultation on the revision of the Energy Taxation Directive.

Public Power Corporation S.A., the major electricity company in Greece, welcomes the initiative of the European Commission to revise the outdated Energy Taxation Directive.

The energy markets as well as the energy-related sectors of the economies are currently undergoing major changes. The technological progress is mainly attempting to address the climate change issues by reducing Greenhouse Gas emissions while the structural changes in the markets are steadily heading towards market integration and sectors coupling in an effort to create a single energy market and enhance competition between energy products.

In that context, while the Energy Taxation Directive (ETD) is anticipated to play an important role as regards the fight against the climate change, thus promoting the ambitious European Environmental Policy clearly set by both the recently adopted Clean Energy Package and the upcoming Green Deal, it should be borne in mind that the ETD is actually a multi-dimensional legislative text, that should also contribute to:

- Aligning the energy taxation rules across the EU, securing a level playing field for all energy products, thus enabling the smooth functioning of the various energy markets and, eventually, the Energy Union.
- Improving the competitiveness of the European energy / energy-intensive industry in the global markets, thus contributing to the development of the European economies.
- Securing the availability of energy at affordable prices for all European citizens, fighting the extensive energy poverty currently encountered in many Member States.

In view of the above it is, to our view, mandatory to create a robust, harmonized across the EU and long-term-oriented energy taxation framework, in order to avoid market distortions, thus supporting investments in the energy sector while, at the same time, serving the European policies towards the implementation of the Green Deal and the Energy Union.

Further elaborating on the above we would like to point out the following:

- *The energy taxation system should be primarily based on a clear link between the energy content of the products and the applicable tax.*

Unquestionably the ETD concerns taxation of the energy content of each energy product rather than of the energy product itself or of any other property of said product. Therefore, it is mandatory that the energy taxation imposed on energy products should primarily be determined as a clearly defined function of its energy content. Such an approach clearly reflects the mechanisms of market pricing of the most important energy products such as the electricity and the natural gas.

- *Greenhouse Gas Emissions of an energy product may be used as an additional parameter for adjusting the taxation of energy products.*

Although energy taxation may contribute towards incentivizing the use of low-carbon energy products, it is absolutely necessary that it has to be implemented in a cost-efficient way.

Such a mechanism is already in place in the EU, namely the EU ETS. The approach adopted by the European Commission in designing the EU ETS was to secure a cost-effective carbon pricing mechanism by adopting a market-based approach rather than relying on administrative measures, such as a carbon tax, which might result in imposing unnecessary burdens on the energy costs.

However, the EU ETS mechanism, as it has been agreed upon by the Member States in the recently adopted Directive 2018/410 for the period 2021-2030, besides being applicable only to part of the whole spectrum of uses of energy products, provides also for numerous exceptions and compensations of carbon emission costs.

As a result, horizontal introduction of a carbon-emissions-based adjustment of the energy taxation would inevitably introduce distortions in the markets, potentially presenting an additional barrier towards implementing the energy transition. Indeed, energy products used, for example, in the generation of electricity would be subject to both market-based EU ETS costs and an additional amount of administratively imposed energy taxation. Such an approach, given that the use of liquid fuels in transport is excluded from the EU ETS, would, therefore, act as a barrier against the electrification of the transport, despite the fact that the carbon emissions associated with electromobility are considerably lower than those resulting from the use of liquid fuels, even in the case that the electricity is generated using natural gas, thanks to the high efficiency of the state-of-the-art Combined Cycle Gas-Turbine (CCGT) Power Plants.

Therefore, any arrangements concerning the introduction of a carbon-based adjustment of the energy taxation should take into account the already existing provisions of the EU ETS, avoiding a potential double taxation of the energy products that are already covered by the EU ETS.

- *The efficiency of exploitation of the energy content of energy products should also be considered in the context of energy taxation.*

An important pillar of the EU Energy Policy, is the efficiency of exploitation of the energy content of energy products. As already pointed out by PPC in the context of the debate on the EED revision, efficiency is important as regards both power generation and the final use of energy.

Consequently, an adjustment of the taxation of energy products as a function of the efficiency of their exploitation in the specific application concerned would also strongly support the EU energy transition and climate policies, disincentivizing the inefficient exploitation of energy products and, thus, eliminating unnecessarily elevated carbon emissions.

- *The need to secure energy at affordable and competitive prices should be observed.*

Availability of energy for all Europeans at affordable prices as well as availability of energy for the industry at competitive prices is, to our view, a major parameter that should also be taken into account in the context of revising the ETD.

It is inevitable that the fight against Climate Change through decarbonization of the economies will come at an additional cost. However, in view of preserving the growth of the economies of the Member States as well as of the European businesses, it is of the utmost importance on one hand to secure energy at affordable prices for all European citizens, thus fighting energy poverty, and on the other hand to maintain the competitiveness of the European industry, especially of the energy-intensive sector, at global level.

Therefore, special attention should be paid to keeping the levels of taxation at the lowest possible levels that are required to meet the goals of the European policies and in particular the Climate goals. In view of the differences between the economies of the Member States, even within the Eurozone, both the level of salaries and the purchasing power of the citizens should be considered as additional parameters in the context of determining the optimal level of energy taxation rates in the Member States.

Moreover, the Regulators are expected to play an important role towards offsetting any additional taxation revenues by fostering the acceleration of the energy transition through innovative and cost-efficient technologies. No additional costs for energy consumers in support of inefficient investments and technologies should be acceptable.

Finally, to the extent necessary, compensation of low-income families may be used as a complementary tool to mitigate the additional burden due to a potential increase of taxation rates. An example of such an intervention is already included in the consultation questionnaire, concerning a direct compensation to lower income groups via a lump sum or / and a tax-free base/threshold for heating and electricity taxes for basis consumption. In much the same way and to the extent that the issue of preventing carbon leakage will eventually not be fully addressed through other policies (such as the "Border Carbon Adjustment"), the current compensation schemes for the

energy-intensive industry with potentially necessary adjustments could be preserved.

- Double taxation of energy products in the course of their transformation to other energy products should be avoided.

Double taxation is a major problem concerning, among others, the generation and supply of electricity.

Despite the current ETD provisions concerning a mandatory tax exemption for energy products and electricity used to produce electricity - unless they are taxed for environmental purposes - electricity has always been at the center of interest of governments as a convenient source of tax revenues.

As already mentioned, electricity is envisaged as an important –if not the primary- energy carrier able to deliver the Climate goals of the EU by replacing carbon-emitting energy products used in other sectors of the economy, such as the mobility and transport. Allowing for a double taxation of both the energy products used for the production of electricity and the electricity itself, apparently jeopardizes the important role of electricity for the decarbonization of the economies.

It should also be taken into account that, after all, the use of electricity itself results in zero emissions, while, in the case that the energy products used for generation have already been subject to taxation, both the taxes corresponding to its energy content and the costs of carbon emissions associated with its generation have already been paid.

Furthermore, it should be mentioned that such a double taxation approach would impose an unnecessary burden as regards the cost of generation of electricity in areas such as the isolated islands, where currently fossil fuels are the only energy source capable of providing the firm capacity required for securing the supply of electricity. The corresponding costs, being recovered through additional charges for Public Service Obligations are a considerable burden for the electricity markets and, eventually, the end consumers.

Last but not least, avoiding double taxation of energy products in the course of their transformation to other energy products including electricity storage is essential for incentivizing the development and commercialization of synthetic, low- or zero-carbon emitting energy products, such as the hydrogen and the synthetic fuels ("P2X" processes) and supporting the integration of renewable energy. Any attempt to impose energy taxes on both the power used for their production and the low-carbon energy products themselves is widely recognized as a major issue and will definitely jeopardize the climate goals of the EU. Respectively, double taxation should be avoided to the grid electricity stored or in batteries or EVs for grid services and to the electricity released from batteries or EVs to the grid.

- A unique, however flexible methodology should be applied for the taxation of all energy products, avoiding exceptions to the extent possible while, however, taking into account the specificities of the Member States.

The revised ETD should provide for an alignment of the taxation methodologies across the European Union. In that context, as it has been clearly

demonstrated in the context of the current ETD, just setting minimum levels of taxation on energy products to be observed across the EU is by no means adequate for eliminating potential distortions created by heavily asymmetric energy taxation arrangements in the various Member States. Level playing field in the markets is further deteriorated by the numerous exceptions granted on a case-by-case basis in an attempt to remedy specific problems, without such exception to comprise part of an integral energy taxation design.

To our view, the development of a concrete methodology for setting the energy taxation rates, applicable throughout the EU, designed as outlined in the previous paragraphs, incorporating built-in flexibility and allowing for as little as possible room for special exceptions, is absolutely necessary to ensure a level-playing field across the EU and enable the implementation of the Energy Union. Ideally, most of the exceptions already granted to energy products under the existing ETD as well as the envisaged differentiation of the taxation of future low-carbon energy products for the purpose of incentivizing their use should be accommodated within the context of such a design, without the need for sporadic exceptions.

In much the same way, it would be desirable for the specificities of Member States to be addressed, to the extent possible, within the context of the aforementioned EU-wide applicable methodology. However, the new ETD should provide adequate flexibility to accommodate both the unforeseeable developments in the fast moving energy markets of the future and the specificities of the Member States as necessary.

- *The need for stability of the energy taxation system over time is vital for the success of the energy transition.*

It is generally recognized that the success of the energy transition and consequently of the Climate Targets of the European Union policies is heavily dependent on the availability of funds necessary to meet the vast requirements for investments in the energy sector.

Taking into account the long time required for the implementation as well as the long fiscal life of such investments, especially as regards investments in the generation of electricity, it is mandatory that the updated energy taxation framework will provide a stable and transparent business environment, securing the long-term insight required to support and promote the investment decisions urgently needed for the energy transition. In that context, the main principles of the revised taxation system should ideally be designed in a way compatible with a smooth and gradual transition towards the 2050 climate targets of the Green Deal, thus minimizing the need for potentially significant future corrective actions that could adversely affect the business environment and, consequently, the confidence of investors.

However, as already mentioned, in view of the potentially unforeseeable significant developments in the energy sector, especially as regards the energy technologies and, consequently, the energy markets, the updated energy taxation system should provide adequate flexibility to adapt to such changes without upsetting the basic taxation system structure.

Public Power Corporation will keep on monitoring and studying the developments regarding the debate on the revision of the Energy Taxation Directive and shall be happy to constructively contribute in the future as well.

Sincerely

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