Europex

**– Consultation response –**

# Public consultation on the revision of the Energy Taxation Directive (ETD)

Brussels, 14 October 2020 | Europex supports a revision of the Energy Taxation Directive (ETD) in order to enable the transition towards climate neutrality. This is an important opportunity to ensure that energy taxation policy supports the objectives of the Internal Energy Market – and ensure that consumers can benefit from incentives provided by price signals from the electricity and gas wholesale markets. The energy mix is changing, with higher shares of renewable gas and electricity. In a sector integration context, electricity and gas will increasingly compete as energy carriers. Against this backdrop, our response focuses on two aspects – the effect of the relatively high tax share in the final energy bill and the need to ensure a level playing field between different energy carriers.

**The importance of a meaningful 'energy component' in the end-consumer energy bill.** Different components can be distinguished in the end-consumer energy bill: the energy component (the part of the price paid to the energy retailer, consisting mostly of wholesale prices), network costs and taxes and other levies. While the energy component has generally been decreasing over recent years[1], the regulated tax part of the bill has been growing. For household consumers for example, the tax part of the electricity bill across the EU-27 has increased continuously from 31.2 % in 2008 to 40.7 % in 2019.[2]

While the situation varies significantly in different European countries, a relatively low energy part of the bill reduces the incentives for consumers to respond flexibly to changes in wholesale or retail prices. Instead, providing consumers with reliable information about the real cost of energy is crucial to allow them to actively participate in energy markets, manage their own resources and directly contribute to the energy transition. All market players – including producers, energy service providers, energy storage and flexible demand –, should be able to directly participate in the market and benefit from clear price signals. Aspects such as smart metering deployment and dynamic tariffs are an important prerequisite – but the

[1] In part due to successful market integration initiatives, such as SDAC and SIDC market coupling, as well as increased interconnection between Member States. See Commission SWD COM(2019)1 final accompanying the report *Energy Prices and Costs*.

[2] Source: Eurostat (nrg_pc_204). This also includes levies such as costs for renewable support policies.

benefits of adjusting consumption or offering flexibility according to real-time price signals are significantly reduced if ‘fixed’ regulated taxes continue to account for such a large proportion of energy bills, and ‘blunt’ the effect of these price signals.

The Electricity Directive (EU) 2019/944 recognises that Member States should be able to introduce specific national provisions with respect to taxes and levies, so as not to disincentivise active customer participation. However, deeper reform is needed to address the current significant variation in national approaches. The revision of the ETD should specifically aim to limit the tax share of the consumer bill in a harmonised manner across Member States. The relative share of levies, including for example renewable policy support costs, also needs to be taken into account when addressing the tax share. Ways to increase alignment between the electricity and gas sectors should also be explored. In the gas sector, the tax component is generally lower as a share of the consumer bill, for both household and non-household consumers). For both electricity and gas, the main component of the price should be the cost of the energy itself.

**In an integrated energy system, a level playing field is needed between electricity, gases and other energy carriers.** In an integrated energy system, reliable, undistorted price signals coming from the wholesale gas and electricity markets will be important to allow owners and operators of flexibility assets (such as large industrial consumers, storage, distributed assets, electric vehicles, etc.) as well as conversion assets (such as P2G, P2X) to make efficient economic decisions on how to best operate assets and decide where to invest. However, as electricity and the different types of gases are increasingly viewed as substitutes, the application of different taxes, levies and tariffs (i.e. the non-energy part of the price) risk distorting competition between the different energy carriers.

The objective should be to ensure that the different carriers can compete on a level playing field, and ensure that price differences are the result of real underlying differences in cost (e.g. differences in technology costs or environmental externalities). There are several examples of where changes can be made to help achieve this objective and avoid double taxation – for example, clarifying treatment of electricity when it is stored, rather than be considered as end-consumption, or making sure that there is no tax disincentive to use electricity in P2G conversion assets – e.g. producing green hydrogen, as compared to other energy carriers.

## About

Europex is a not-for-profit association of European energy exchanges with 29 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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