

Naturgy's response to the EC's consultation on the proposed draft in Climate, Energy and Environmental State aid Guidelines 2022

Naturgy welcomes the opportunity granted by the European Commission in providing comments on the proposed draft in Climate, Energy and Environmental State aid Guidelines ("CEEAG")

Regarding funding of decarbonization policies to achieve 2030 reductions of CHG emissions and climate neutrality by 2050, Member States partially finance them through levies on energy consumption.

Under the draft guidelines, the *"aid in the form of reductions from electricity levies for energy-intensive consumers"* (4.11) allows MS to reduce exclusively electricity consumption levies to finance decarbonization policies charged to energy intensive consumers to avoid the risk of moving these activities outside the EU and of discouragement of the electrification of production processes. It particularly excludes levies on natural gas and other energy carrier's consumption. Regarding these issues, Naturgy would like to highlight the following concerns with the drafted wording:

1. The proposed reduction of levies is limited to electricity consumption by certain energy-intensive consumers

*"354. Under this Section, Member States may grant reductions from levies on electricity consumption which finance an energy policy objective".*

2. Additionally, the proposed state aid mechanism requires the mitigation of the risk of hampering the electrification of production processes as a compatibility criterion for proportionality of this sort of state aid.

*"351. (...)*

*In addition, such levies increase the cost of electricity compared to the cost of direct emissions and can therefore discourage the electrification of production processes, which is central to the successful decarbonisation of the Union economy. To mitigate those risks, Member States can grant reductions from such levies for companies active in the economic sectors concerned".*

3. Moreover the proposed state aid mechanism excludes from the possible reduction of levies charged on natural gas consumption and other energy carriers, independently on the nature of these levies (e.g. development of renewable energy sources) and the nature of the energy consumption process (which might not (hardly) be electrifiable).

*"354. (...)*

*This Section does not cover levies which reflect part of the cost of providing electricity to the beneficiaries in question. For example, exemptions from network charges or from charges financing capacity mechanisms are not covered by this Section. Levies on the consumption of other forms of energy, in particular natural gas, are also not covered by this Section"*

4. Gas intensive consumers may be under the risk of moving their activities outside the EU, in the same manner as electricity consumers, if they are to bear the costs of decarbonization.

To this extent, it should be noticed that the Spanish Government launched in early 2021 a draft law that sets up “El Fondo Nacional de Sostenibilidad del Sistema Eléctrico” (FNSSE) which is nowadays being discussed by the Spanish Parliament.

The FNSSE obliges to support this levy not only to electricity consumers but also to natural gas consumers in order to finance the cost of the development of electricity renewable power required to achieve the Spanish decarbonization policies.

Naturgy, as a Spanish company involved in the natural gas sector, would suggest the European Commission to review the draft wording of clause 4.11. in order to allow the reduction of the FNSSE charged to gas-intensive consumers within the state aid framework.

Therefore, in our view, the Guidelines should be amended as follows:

European Commission’s proposal 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.1 Rationale for the aid	EUROGAS recommendation 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.1 Rationale for the aid
351. For certain economic sectors which are particularly exposed to international trade and rely heavily on electricity for their value creation, the obligation to pay the full amount of such levies can create a significant additional burden. This burden can heighten a risk of activities in these sectors moving outside the European Union to locations where environmental disciplines are absent or less ambitious. In addition, such levies increase the cost of electricity compared to the cost of direct emissions and can therefore discourage the electrification of production processes, which is central to the successful decarbonisation of the Union economy. To mitigate those risks, Member States can grant reductions from such levies for companies active in the economic sectors concerned.	351. For certain economic sectors which are particularly exposed to international trade and rely heavily on <del>electricity</del> energy for their value creation, the obligation to pay the full amount of such levies can create a significant additional burden. This burden can heighten a risk of activities in these sectors moving outside the European Union to locations where environmental disciplines are absent or less ambitious. In addition, such levies increase the cost of <del>electricity</del> energy compared to the cost of direct emissions and can therefore discourage the <del>electrification</del> of transition to production processes using renewable or low-carbon energy sources, which is central to the successful decarbonisation of the Union economy. To mitigate those risks, Member States can grant reductions from such levies for companies active in the economic sectors concerned.

European Commission’s proposal 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.1 Rationale for the aid	EUROGAS recommendation 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.1 Rationale for the aid
352. This Section sets out the criteria which the Commission will apply when assessing the development of an economic activity, incentive effect, necessity, appropriateness, proportionality and competition impacts of reductions in electricity levies for certain energy-intensive users. The compatibility criteria in Chapter 3	352. This Section sets out the criteria which the Commission will apply when assessing the development of an economic activity, incentive effect, necessity, appropriateness, proportionality and competition impacts of reductions in <del>electricity</del> energy levies for certain energy-intensive users. The compatibility criteria in

apply only for those criteria for which there are no specific rules in this Section.	Chapter 3 apply only for those criteria for which there are no specific rules in this Section.
--	--

European Commission's proposal 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.1 Rationale for the aid	EUROGAS recommendation 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.1 Rationale for the aid
353. The Commission has used appropriate measures to identify those sectors which find themselves particularly exposed to the risks mentioned in point 351 and it has introduced proportionality requirements taking into consideration that, if the reduced levies are too high or awarded to too many electricity consumers, the overall funding of support to energy from renewable sources might be threatened and distortions of competition and trade may be particularly high.	353. The Commission has used appropriate measures to identify those sectors which find themselves particularly exposed to the risks mentioned in point 351 and it has introduced proportionality requirements taking into consideration that, if the reduced levies are too high or awarded to too many <del>electricity</del> energy consumers, the overall funding of support to energy from renewable or low-carbon sources might be threatened and distortions of competition and trade may be particularly high.

European Commission's proposal 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.2 Scope: Levies from which reductions can be granted	EUROGAS recommendation 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.2 Scope: Levies from which reductions can be granted
354. Under this Section, Member States may grant reductions from levies on electricity energy consumption which finance an energy policy objective. This includes levies financing support to renewable or low-carbon sources or to combined heat and power and levies financing social tariffs or energy prices in isolated regions. This Section does not cover levies which reflect part of the cost of providing electricity energy to the beneficiaries in question. For example, exemptions from network charges or from charges financing capacity mechanisms are not covered by this Section. Levies on the consumption of other forms of energy that are not renewable or low-carbon, in particular natural gas, are also not covered by this Section.	354. Under this Section, Member States may grant reductions from levies on <del>electricity</del> <b>energy</b> consumption which finance an energy policy objective. This includes levies financing support to renewable or low-carbon sources or to combined heat and power and levies financing social tariffs or energy prices in isolated regions. This Section does not cover levies which reflect part of the cost of providing <del>electricity</del> <b>energy</b> to the beneficiaries in question. For example, exemptions from network charges or from charges financing capacity mechanisms are not covered by this Section. Levies on the consumption of other forms of energy that are not renewable or low-carbon, in particular natural gas, are also not covered by this Section.

European Commission's proposal 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.3.1 Eligibility	EUROGAS recommendation 4.11 Aid in the form of reductions from electricity levies for energy-intensive users 4.11.3.1 Eligibility
357. The aid under this Section should be limited to sectors that are at a significant competitive disadvantage and risk of relocation outside the	357. The aid under this Section should be limited to sectors that are at a significant competitive disadvantage and risk of relocation outside the

<p>Union because of the eligible levies. The risk of relocation depends on the electro-intensity of the sector in question and its exposure to international trade. Accordingly, aid can only be granted if the undertaking belongs to a sector facing a trade intensity of at least 20 % at Union level and an electro-intensity of at least 10 % at Union level. In addition, the Commission considers that a similar risk exists in sectors that face an electro-intensity of at least 7% and face a trade intensity of at least 80%. The sectors meeting these eligibility criteria are listed in Annex I.</p>	<p>Union because of the eligible levies. The risk of relocation depends on the <del>electro</del><b>energy</b>-intensity of the sector in question and its exposure to international trade. Accordingly, aid can only be granted if the undertaking belongs to a sector facing a trade intensity of at least 20 % at Union level and an <del>electro</del><b>energy</b>-intensity of at least 10 % at Union level. In addition, the Commission considers that a similar risk exists in sectors that face an <del>electro</del><b>energy</b>-intensity of at least 7% and face a trade intensity of at least 80%. The sectors meeting these eligibility criteria are listed in Annex I.</p>
--	--