



HELLENIC REPUBLIC

Ministry of Environment and Energy



**Subject: Greek proposal on the establishment of a European Fund to address the impact of high gas prices**

In view of the extraordinary EU Energy Council on the 30<sup>th</sup> of September, I would like to present to you a proposal on the imposition of a special levy on natural gas consumed for power generation. This will be followed by the establishment of a Special Fund, which will utilize those resources to finance investments in alternative fuels (green hydrogen and biomethane), energy efficiency, energy companies' emergency needs and system modifications necessary for Russian gas replacement.

Reducing natural gas demand constitutes a primary objective so that Europe can limit its Russian gas imports. However, during the two years before the gas price crisis, data had shown an increase in the dependence of electricity generation on natural gas which had been driving up the cost of electricity. At the same time, this dependence was jeopardizing the uninterrupted power supply when taking into consideration the possible tightness of supply of natural gas. In this context, energy companies are now facing an increased fuel purchasing cost, needed to replace Russian natural gas, and are obliged to hedge against price increases using financial means.

In addition, it is imperative that investments to develop alternative fuels, such as bio methane and green hydrogen are urgently accelerated, to urgently accelerate investments to develop alternative fuels, such as biomethane and green hydrogen, which in combination with energy efficiency investments will enable a drastic reduction in natural gas consumption. This strategy is, also, the basic aim of the REPowerEU policy package, which includes, inter alia, particularly ambitious short-term targets for biomethane and green hydrogen. Market development for alternative fuels depends on investment, for which investors need sufficient predictability and certainty regarding market prospects. Enabling investment will lead to improvements in and also lead to cost reduction, which are also necessary conditions for further market development. This requires state support, as was done in the case of renewable energy sources during their initial development phase. Subsidized and guaranteed contracts of economic differences, investment in infrastructure, as well as support for first-of-the-kind projects

constitute the most appropriate government policy to enable natural gas substitution by alternative fuels. However, such state intervention has significant budgetary costs.

In order to finance the above-mentioned state intervention, *we propose to introducing a special levy on the consumption of natural gas and to subsequently to establish a Special Fund, which will gather resources by this special levy and possibly other resources.* Only natural gas consumed for electricity generation would be subject to this special levy and would exclude applications in high efficiency cogeneration. We are not proposing to applying this levy on final consumption of natural gas (such as in industry and buildings), since in these sectors a non-negligible excise tax is already being applied. We are, also, taking into account that final energy consumers have been heavily burdened by high energy prices, so any further burden would have adverse effects on their income, on inflation and on the economy as a whole. Furthermore, final consumers are already drastically reducing their gas consumption, as shown by recent Eurostat data, and this reduction will be further assisted by enhanced support for energy efficiency investments.

We believe that, if a special fee of 10€/MWh (gas) is applied to natural gas used for electricity generation, an amount of € 9bn will be collected annually collected in the entire EU (based on 2021 consumption). The special levy on natural gas could be combined with a low-interest loan financed by the European Investment Bank. The amount of the loan could be around € 80 bn, which would be serviced by assigning the 10€/MWh(gas) levy revenue to the European Investment Bank for 15 years. The loan would constitute a revenue of the Fund.

The Special Fund will aim to:

- a) Cover the emergency needs of energy companies that are in financial difficulty because of their efforts to replace Russian natural gas and to compensate the increase in prices, so as to mitigate any impact on consumers.
- b) Support vulnerable households and SMEs in order to tackle increased natural gas prices
- c) Support investments in alternative fuels, such as biomethane and green hydrogen
- d) Support investments in energy efficiency and substitution of natural gas by final consumers
- e) Support natural gas system infrastructure modifications and extensions that are necessary to replace Russian natural gas and enhance the possibility of imports from other sources

My services remain at your disposal for any further discussion of our proposal at a technical level.