New EU Regulation to address high energy prices 1/49/22


ESG Tax Practice, PwC Latvia
Alina Ruskova


Senior Consultant, Transfer Pricing, PwC Latvia
Liva Leimane

Council Regulation on an emergency intervention to address high energy prices came into force on 8 October 2022. Its purpose is to prescribe a set of measures that will contribute to the member states' energy supply and mitigate the impact of high energy prices on consumers and the member states' economies. This article explores several groups of measures the member states are required to adopt under the Regulation.

A temporary solidarity contribution for the fossil fuels sector

Since September 2021 the electricity markets have shown very high prices adversely affecting consumers and capable of creating a significant increase in profits for energy producers, suppliers and intermediaries. This has resulted in plans to introduce a temporary solidarity contribution on such excess profits.

The contribution will apply to the excess profits of member states' companies operating in the crude petroleum, natural gas, coal and refinery sectors. The Regulation states that an excess profit is a profit determined under national tax law in the fiscal year starting in 2022 and/or 2023 which exceeds the annual average 20% increase in taxable profits since 2018. The Regulation provides that the rate of the solidarity contribution must be at least 33% and it will apply in addition to the regular taxes and levies.

The member states will be able to allocate revenues from the solidarity contribution to financial aid measures, for example:

- Compensation of energy end-users and vulnerable households
- Measures that help reduce energy consumption
- Support for companies in energy-intensive sectors
- Measures to develop energy autonomy
- Measures mitigating the adverse effects of the energy crisis

A mandatory cap on market revenues

The Regulation requires the member states to adopt a cap of EUR 180 per MWh on the market revenues of electricity producers, including intermediaries, using inframarginals for electricity generation. This requirement will apply to producers and intermediaries generating electricity from the following energy sources:

- Wind energy
- Solar energy, whether thermal or photovoltaic
- Geothermal energy
- Hydropower without reservoir
- Biomass fuel (solid or gaseous biomass fuels), excluding biomethane

- Waste
- Nuclear energy
- Lignite
- Crude petroleum products
- Peat

The cap on market revenues is expected to keep the producers and intermediaries profitable and not to hinder investment in renewables.

Other measures and details

The Regulation requires the member states to reduce their electricity consumption by at least 5% during peak hours over the period from 1 December 2022 to 31 December 2023. The member states are also encouraged to voluntarily consider a 10% average reduction in electricity consumption. The reduction in demand is expected to drive a reduction in fuel consumption and a more even distribution of demand over hours, affecting market prices.

The Regulation’s measures are exceptional and strictly temporary. They will apply from 1 December 2022 to 31 December 2023. The cap on market revenues will apply up to 30 June 2023.

PwC’s team of experts are researching into ways and the extent to which these measures will be adopted in Latvia. We will keep our MindLink.lv subscribers informed about this topic.