

European Commission

18 June 2021

**Subject: EFET¹ letter accompanying the Hydrogen and Gas Market
Decarbonisation Package consultation response**

EFET welcomes the opportunity to participate in the Hydrogen and Gas Market Decarbonisation Package consultation. We believe that renewable and low-carbon gases have an important role to play in reaching the greenhouse gas emission reduction targets, as well as achieving full climate neutrality in the future, hence the revision of the Gas Package is necessary to accommodate and encourage their injection to the existing and future EU-wide infrastructure. Market-based mechanisms will remain key for ensuring cost-efficient transition, and coordination at EU level is necessary to retain the integrity of the internal EU market for gas and, in the future, hydrogen.

The establishment of an effective gas market across the EU was essential to increase efficiency and security, to improve risk management and to facilitate private investment. Where competition has been allowed to flourish, it has enhanced consumer choice and driven down prices. Price transparency from liquid wholesale markets has been a key enabler of this.

The establishment of wholesale markets in hydrogen as a commodity, and ancillary products that help to demonstrate other attributes valued by consumers and by policymakers, will provide a framework whereby commercial enterprises and private investors can help to achieve policy goals in competitive and economic ways. Of key importance will be the design of the market such that hydrogen can be traded as a commodity irrespective of source or origin, and that environmental characteristics are capable of being traded independently.

The risks and costs associated with transition will be substantial and cannot be entirely borne by the public sector. Using experience gained in the development of the market for natural gas in the last 25 years, a structure that does not depart too far from existing market design (without good reason) will provide a road map that is familiar to market participants, investors, financial institutions and authorities, which will in turn help to contain costs and risks.

As a general comment, we applaud and appreciate that the European Commission engages in transparency and consultation. Nevertheless, we also recognise the efforts required by all parties in designing, responding to, and analysing extremely lengthy consultations relative to the clarity that is obtained, and encourage the Commission to bear this in mind in future exercises.

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

Clarifying notes to individual questions

Below, we provide some additional remarks and clarifications that supplement the answers provided through the online form, where questions have been ambiguous, multiple choice did not offer a response that matched the preferred EFET position, or where further important changes may be necessary that were not addressed in the question.

Q5: The carbon price provides the main incentive to discourage the use of unabated fossil fuels. The Renewable Energy Directive enables the promotion of decarbonisation using particular technologies which may not always be economic compared with other means. To include overlapping obligations under different pieces of legislation can confuse and undermine the setting of clear objectives – especially where definitions may be inconsistent – and make both transposition and compliance more difficult. For this reason, EFET supports common definitions where possible; different legislative instruments should not create such overlaps, but instead address distinct objectives and policy areas.

Q15: Although existing legislation has not been effective at promoting sustainable energy sources, the establishment of a gas market has significantly contributed to reductions in carbon emissions by facilitating switching away from more carbon-intensive fuels and towards more efficient gas-burning technologies. Ensuring that GOs are tradable independently from the underlying commodity will help enable an efficient hydrogen market to develop, rather than seek to fragment it according to geographical and technical origin.

QQ19-30: There is a wide range of potential scenarios for infrastructure needs depending on assumptions around electrification, low carbon hydrogen, energy storage and demand-side measures. It would be tempting to allow expansion of all networks to accommodate all possibilities though this would lead to the greatest risk of overinvestment and increased costs of transition to end-consumers. Incentives may also differ where electricity and gas networks are under common ownership or are entirely independent and may compete for transportation of energy. Where electrolyzers may be built, in part to alleviate congestion, independent investors should have sufficient information to assess the value of different locations. An open dialogue with cross-industry agreement about the extent of network investment in each vector will help to achieve a better outcome, but strict regulatory oversight will remain essential.

Q23: Responses to this question on establishing a single national network development plan are at this stage aspirational and may not be immediately achievable. There will need to be a supportive regulatory framework, it will need to address information asymmetry, and work within national policy constraints. In any case, plans should be coordinated and integrated.

Q28: It is unclear if the inclusion of “without legal consequence” in the second response option implies that the others must be “with legal consequence”. Our answer assumes that this is not the case, that information should be published on all the categories mentioned, that there should be adequate incentive for this information to be complete and accurate, but this should not imply a legal obligation for TSOs to develop any projects listed.

Q31 and Q32: The EU should aim at creating a pan-European hydrogen market including hydrogen from very well interconnected third countries, which are both part of the European gas grid and of the synchronous grid of Continental Europe and have a strong regulatory convergence with the EU's overall climate and energy objectives.

Q35: Different circumstances may give rise to needs for different regulatory arrangements for new hydrogen networks, development of existing private hydrogen networks, repurposing of gas networks, creation of a hydrogen backbone and self-contained downstream systems. Rather than allowing "flexible" wording – which may be interpreted very differently from member state to member state – consideration should be given to providing a small number of options, which are precisely defined.

Q38: EFET believes that existing gas TSOs and DSOs should be allowed to operate and invest in hydrogen networks, provided that it does not preclude infrastructure investment by private parties where they meet strict exemption criteria (i.e, response options i and ii are complementary and not mutually exclusive).

Q39: EFET favours a case-by-case approach to the treatment of existing private hydrogen networks depending on whether they exist purely as downstream networks, have very specific requirements on the chemical composition of gases transported, and whether they would be in a position to prevent market expansion. This can be achieved through an exemption regime.

Q40: For future private hydrogen networks, while we believe that regulated third-party access should apply to them by default, certain transitional arrangements may prove to be necessary to underwrite early investment in hydrogen infrastructure.

Q41: The allowed responses do not include an option for an Independent System Operator (ISO) without the requirement of full ownership unbundling, which is allowed under the Gas Directive, and which would have been the preferred EFET response. If a gas ISO would wish to repurpose its system to hydrogen transportation - especially if there is a market interest in doing so - an obligation on ownership unbundling could discourage this as it would not be possible without a forced sale. In member states where the ISO model is used, this would hinder the building of a European hydrogen backbone.

Q44: It is difficult to be definitive at this stage over how costs are allocated between methane and hydrogen infrastructure users. Challenges related to repurposing of infrastructure need further consideration though in principle cross-subsidisation should be avoided.

Q45: The options allowed in the response are not mutually exclusive. The current structure of tariffs should be used for renewable and low carbon gases, and the zeroising of tariffs at interconnection points is extremely challenging – not least if it requires the creation of an inter TSO compensation mechanism. However, we should be open to consider other methodologies which may be helpful to encourage investment in new infrastructure or repurposing, and which are not included in existing codes. This should also not prevent further improvement of the existing system where problems persist for natural gas.

Q55: While we agree that a common quality standard for hydrogen at EU level would benefit market integration, we recognize that this might prove to be very challenging and therefore delay the process of revising the hydrogen and gas legislation that is urgently needed. Hence, we support the idea of having the standards set at Member State level with EU-level cross-border coordination rules in place that do not restrict the flow of hydrogen between different zones. As technologies mature and the related infrastructure develops, the concept of developing a common EU quality standard may be studied further.

Q58: For hydrogen storage facilities, we see it as a normally regulated activity at least in the short-term, but able to apply for exemptions similar to Article 36 and/or be excluded as de minimis if they are not *technically and/or economically necessary for providing efficient access to the system*. Such conditions could encourage early investment in hydrogen storage facilities.

Q67: In terms of access of renewable and low carbon gases to the existing networks, we note that the point on short-term capacity and storage product attractiveness (measure #9) is unclear. Currently, the measures in place work against the attractiveness of short-term products (i.e. multipliers, seasonal factors) rather than in their favour and there is uncertainty around the form of support that renewable/low-carbon gases might receive in the future.

Q70: Future use of LNG terminals is currently unclear. We have responded “other” as this requires further study.

Q71: EFET has not responded to this question as the available options are too extreme. We cannot yet say that LNG terminals *will* play an important role (the “yes” response), though it remains possible and should not be discounted, which was implied by the alternative answer (the “no” response).

Q75: EFET supports transparency measures but has answered “no” to this question as it may not be the most appropriate way to promote storage, which was a very specific condition in the question.

Q80: We have responded to the second bullet as the “least wrong” answer, but more flexible arrangements will likely emerge, and a variety of solutions depending on local conditions may be desirable.

Q83: The roles of all market participants will change for gas quality. EFET emphasises the key roles of TSOs and DSOs above other participants in their responsibility for quality management in their systems.

Q84: Gas quality adaptation will likely happen at multiple points in the value chain, but the question did not allow all of the boxes to be ticked simultaneously.

Q87: In the context of gas quality supervision, we note that NRAs do not always hold the necessary competences nor the resources to undertake technical oversight over gas quality maintenance. Their role in this context may be restricted to managing an incentive mechanism for TSOs to ensure gas quality stability within the boundaries of the applicable standards.