

Comments on the hydrogen and decarbonised gas market package

Eurelectric position paper

March 2023

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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KEY MESSAGES

- **Setting zero cross-border tariffs at interconnection points for hydrogen transport networks is not the solution.** Clear and transparent tariff rules are crucial for hydrogen networks, and zero cross-border tariffs at interconnection points won't be enough for the upscale of the hydrogen market. Public support may be necessary, but it should be directed and adapted to avoid distortion for other grid users and bias in sectoral integration.
- **Alike for hydrogen, including specific, sub-targets for biomethane in the legislation may be questionable.** Binding sub-targets for renewable gas development risks complicating the legislation. Market participants should have the freedom to choose the best path for decarbonisation objectives, renewables as a whole being a key enabler, whatever their underlying energy carrier.
- **Emergency Gas market regulations should remain temporary.** The ITRE committee included some provisions from Council Regulation 2022/2576 released in December 2022. Enshrining permanent reporting obligations for LNG price assessment and security of supply provisions in the Hydrogen and decarbonised gas market package will create increased administrative burdens without benefits for companies and suppliers.
- **Creating a separate natural gas European entity for distribution system operators should be prioritized.** Keeping the current EU DSO Entity for electricity and creating a separate EU entity for natural gas distribution system operators is the best way to improve efficiency and ensure consistency with the TSO organization model. Once established, both entities should cooperate closely.
- **The hydrogen uptake should be cost-efficient.** The expansion in the use of hydrogen should rely on having a cost-efficient infrastructure development, a level playing field for network users, and prioritizing renewable and low-carbon hydrogen in hard-to-decarbonize sectors.

Setting zero cross-border tariffs at interconnection points is not the solution

Eurelectric believes that clear and transparent tariff-setting rules for hydrogen transport networks are crucial to reflect the cost of transporting hydrogen across the future EU "backbone" for network users. Therefore, it is essential to establish such rules for hydrogen networks.

The existing structure of the cross-border gas transmission tariff system is suitable for the development of the hydrogen market. Gas transmission system operators (TSOs) aim to achieve efficient dispatch to ensure a maximum social welfare. To achieve this objective, gas TSOs' cost recovery is transparently defined, especially with regard to identifying which investments and assets are considered in the definition of interconnection tariffs. This cost reflectiveness principle for cross-border transport allows for optimized use of interconnection capacities across the EU.

Diverging from the economic principles required for gas networks, via a zeroization of cross-border tariffs at all interconnection points within the EU hydrogen network, will certainly not be enough to develop the interconnected hydrogen market, for which significant investments will be needed in both hydrogen production and end usage, as part of the indirect electrification and sectoral integration processes.

To prepare for the deployment of clean technologies, such as electrolyzers, public support may be necessary at inception, on both the production and infrastructure sides. It will be up to policymakers to decide whether Member States should subsidize renewable and low-carbon hydrogen technologies. From a regulatory point of view, if such instruments are implemented, Eurelectric considers this public support should be directed (direct subsidies for instance) to ensure visibility and avoid distortion for other grid users while being adapted to the maturity of relevant technologies.

Alike for hydrogen Including specific, sub-targets for biomethane in the legislation may be detrimental

The European Commission communication [REPowerEU Plan](#) issued on May 18th and the accompanying [staff working document](#) suggests scaling up biomethane production to 35 bcm and renewable hydrogen to 2 x 10 million tons (domestic production + imports), by 2030 as a "cost-efficient path to achieve our ambition to reduce imports of natural gas from Russia"¹ and the ITRE committee proposed to onboard that biomethane objective that in the text.

Eurelectric does not endorse the introduction of specific targets for renewable gas penetration. We think that imposing binding sub-targets for the development of renewable gases is not the correct way forward, since it risks further complexifying the legislation. Market participants should be free to choose, depending on their own national reality, what is the best way to reach the decarbonisation objectives. Renewables, as a whole, are key enablers to achieving such objectives, whatever their underlying energy carrier (electricity, gas, hydrogen). Setting specific sub-targets to some renewable energies may

¹ [REPowerEU Plan](#), COM(2022) 230 final, European Commission, 18th May 2022

hinder the sectoral integration process, for which cross-commodities flows should stem from non-distorted signals across the value chain (i.e. from production to consumption).

Emergency Gas market regulations should remain temporary

The ITRE committee voted on February 9th to incorporate some provisions from the Council regulation 2022/2576 dated 19 December 2022 and [enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders](#) in the [proposed Regulation on gas markets and hydrogen](#).

First of all, **the idea of enshrining emergency measures in the long term can set a worrying precedent for the future.** In our opinion, it would be better to leave some time for these obligations to show their relevancy and whether they are effectively fit for purposes (i.e. strengthening security of supply in the EU). Therefore, it would be better to consider the option of extending the validity of the emergency measures for another limited, temporary period rather than including them in a permanent manner within the Hydrogen and Decarbonised Gas Market Package.

- *On the extension of ACER's LNG price assessment & benchmark:* The outcome of the continuation of the measure will translate into a **permanent reporting obligation for undertakings. This will impose an additional reporting burden for companies, without being an efficient scheme.** Therefore, the added value that this reporting obligation will bring is rather questionable.
- *On the extension of security of supply provisions:* The enshrinement of the provisions will bring an increased administrative burden for companies without a concrete benefit for the security of supply. Specifically, **the transparency obligation set for natural gas undertakings or undertakings consuming gas to communicate their intention to enter into negotiations with natural gas producers or suppliers on the purchase, trade or supply of gas of a volume above 5 TWh/year is not bureaucratically sustainable in the long-term.** Furthermore, this obligation risks expanding the complexity of the process thus delaying activities aimed at increasing new supply. The need to notify the conclusion of a contract by a certain date can also slow down the entry into force of contracts at a stage when the 'time-to-market' is important.

Creating a separate natural gas European entity for distribution system operators should be prioritized

Eurelectric called for keeping the current EU DSO Entity for electricity in its current scope. We recommended creating a separate European entity for distribution system operators who operate natural gas distribution systems, effectively cooperating with the other network entities at the European level, reflecting the fact that in future some DSOs may also operate hydrogen infrastructure in some instances.

Creating two distinct EU entities for electricity and natural gas DSOs respectively would not only ensure consistency with the current organization model at the TSO level with ENTSO-E and ENTSO-G, but it would also result in significant efficiency improvements. Currently, electricity DSOs have important legal responsibilities within the current DSO Entity framework, which they share with ENTSO-E. These responsibilities focus solely on the power sector and its operations, including the Network Code on cyber security and the upcoming Network Code on demand-side flexibility. Combining electricity and pure gas DSOs into a

single European entity would create unnecessary confusion around the scope and decision-making procedures within a single Board of Directors regarding these responsibilities.

Once established, both DSO Entities should cooperate closely as is the case with the ENTSOs at present.

The hydrogen uptake should be cost-efficient

The Hydrogen and decarbonised gas market package should ensure that the development of the energy infrastructure (including the repurposing of gas networks) is **cost-efficient** and not allowing uncontrolled financial transfers between regulated services that are separated. Meeting these cost-effectiveness and cost-reflectiveness requirements is key for coordination with renewable and low-carbon generation development and the electrification of the economy as part of the decarbonisation process and energy independence.

- **Network users should pay for the infrastructure they use and no form of cross-subsidisation between RABs should occur. Consumers should not finance the development of networks they are not using as a default rule.** Nevertheless, at the beginning to help develop hydrogen infrastructure, Eurelectric supports the introduction of an inter-temporal cost-allocation mechanism, whereby a share of cost recovery would be shifted later in the future and be borne by later users of the hydrogen network.
- **The possibility to reduce network tariffs for the injection of renewable and low-carbon gases into the grid should be carefully considered. Notably, such measures would entail cost distribution risks and will not suffice to facilitate the uptake of clean gases.** Should a tariff discount be allowed by Union Law, a level playing field must be ensured and tariff structures tailored in a cost-reflective way so that each grid user pays a price covering the costs it induces (or avoids) on the grid and that no disproportionate burden is imposed on certain categories of consumers.
- **Renewable and low-carbon hydrogen should be used primarily in the hard-to-decarbonise sectors, which will be hard to electrify.** The deployment of renewable and low-carbon hydrogen must in priority be dedicated to replacing current uses of emitting hydrogen, in particular in industrial processes.
- **Hydrogen blending should be seen as a last resort, and a transitional solution, in order to help kickstarting of the hydrogen market.** Indeed, as long as it is possible, hydrogen in pure form should be preferred.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



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