Europex

– Consultation response –

Accompanying note: Consultation on the *'Hydrogen and Gas Markets Decarbonisation Package'*

Brussels, 18 June 2021 | Europex fully supports this review of the legislative framework to design competitive decarbonised gas markets and ensure that gas markets contribute to the decarbonisation of the energy system. Traded markets for hydrogen and other decarbonised gases, supported by certificates and/or Guarantees of Origin (GOs) which allow the green value of the gas to be traded independently of the commodity, have the potential to play a key role in the decarbonisation of the EU energy system, in line with the Green Deal Strategy, and provide market-based income sources for decarbonised gases.

Although traded markets for renewable and low carbon methane and hydrogen are not yet mature, the regulatory framework will determine the speed of market development. Clear regulatory principles established in key areas (including network access, unbundling rules and cross-border interoperability) will help to support the uptake of decarbonised gases and the emergence of liquid and competitive markets.

I - Principles for the regulation of network access of decarbonised gases

Non-discriminatory, regulated network usage and access. Non-discriminatory access to networks at transmission and distribution level is an important cornerstone of competitive energy markets and will also be essential for the creation of traded hydrogen markets and of traded markets for decarbonised gases in general. Though transportation in pipelines is the preferred option from an efficiency point of view, also alternative transport vectors such as trains and trucks are to be considered. It is important to ensure harmonised requirements for network access on a non-discriminatory basis, as is currently required by EU natural gas regulation. In the case of hydrogen, we support early EU-wide regulatory intervention in this aspect to ensure third-party access for new pipelines and a predictable pathway for the transition of existing hydrogen pipelines to a regulated natural monopoly. Tariffs for access to the network should be transparent and non-discriminatory, third-party access to storage and LNG-facilities must be ensured, where relevant. If dynamic regulatory approaches, or sandboxes, are considered for some aspects, close monitoring by national regulatory authorities and ACER is key to ensure a level playing field for all actors.

Clear unbundling of regulated transmission and distribution network activities is a key starting point for energy commodity markets. Opening up electricity and natural gas production, retail and other contestable areas to competition has led to proven benefits, driving innovation and contributing to more affordable consumer prices. In the market for

decarbonised gases, just as for natural gas, effective unbundling and a clear framework for a competitive market will be needed. Potentially competitive activities such as power to hydrogen conversion and the operation of storage (that does not directly contribute to network security) must be market-driven or have clear rules for a transition to market arrangements.

European network planning and development should take place in a coordinated manner in order to benefit from integration between electricity, natural gas and hydrogen markets and networks. EU rules for hydrogen network planning are therefore also necessary to facilitate this. A mandatory integration of hydrogen network planning into the Ten-Year Development Plan (TYNDP) process should be considered and would constitute an important addition to the EU's Energy System Integration efforts.

II - Building blocks of liquid and competitive markets for decarbonised gases

In addition to the above fundamentals, requirements for network access, market roles and balancing for decarbonised gases in the natural gas network and hydrogen in pure hydrogen networks should to the extent possible draw on the principles underpinning existing EU regulation for natural gas. This will create long-term reliability and predictability for market participants. Where regulatory flexibility is needed, close monitoring is indispensable.

The following aspects should be considered:

- **Traded markets provide the most efficient way to transparently match supply and demand and generate revenues for producers of decarbonised gases.** Therefore, it is important that any support schemes provide incentives for market participation of both supply and demand. This is necessary for trustworthy and representative market price signals, and reduces the risk of long-lasting dependency on subsidy schemes. While competitive allocation mechanisms ('competition for the market' as referred to in the roadmap) are important to allocate any support, clear timetables and conditions for the phase-out of subsidies are necessary.

- **The trading of Guarantees of Origin (GOs), reflecting the climate value of gases, should take place on dedicated markets** separately from the commodity trading. Establishing European standards for decarbonised gases and hydrogen quality and a European GO system are important factors to develop a traded market that can take into account the different carbon footprint of the gases. In this respect, it is important to reach commonly accepted definitions of renewable and low carbon gases.

- **Certifications and standards for hydrogen**: There is an urgent need for clear and pragmatic standards for renewable gases and particularly for hydrogen being produced through electrolysis with the use of renewable electricity. To ensure that those standards are not only applicable to hydrogen being produced in the EU but also outside the EU, they need to be flexible enough to be applied in different market designs and jurisdictions but also firm enough to be trustworthy.

- **Long-term bilateral contracts may lead to market foreclosure**, as has been learned from experience with gas and power market liberalisation. Therefore, long-term contracts should only cover a part of the production and consumption respectively of two contract parties. This will incentivise market parties to actively participate in the markets and will help to build up liquidity on traded markets for decarbonised gases.

- **Harmonised standards and metrics allow for cross-border trading of decarbonised gases, covering** comparable grid standards, harmonised balancing regimes and market conditions. One important detail: Decarbonised gases should be traded in EUR/MWh to allow for efficient market and sector integration.

- **Hydrogen: Introduction of virtual trading points (VTP) for hydrogen, similar to natural gas, for balancing and title transfer transactions.** Experience from the natural gas market shows that using the VTPs as focal points for trading helps to stimulate and increase the liquidity of the traded markets. Just as on the natural gas market, energy exchanges and traders can use the VTPs to offer (standardised) contracts for trading hydrogen. The establishment of hubs and market area managers is important to efficiently handle network balancing and the processing of trading notifications to the VTP.

About

Europex is a not-for-profit association of European energy exchanges with 29 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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