



– Consultation response –

Feedback to DG ENER-Trinomics-LBST draft study “Sector Integration - Regulatory Framework for Hydrogen”

Brussels, 11 September 2020 | Europex fully supports efforts in this study to identify the appropriate EU regulatory framework for dedicated hydrogen networks and markets. Traded hydrogen markets, supported by certificates for hydrogen (based on GOs), have the potential to play a key role in the decarbonisation of the EU energy system.

The first priority is the development of both supply and demand of hydrogen, enabling access to hydrogen for a wide variety of actors from all sectors. However, while hydrogen markets may well develop on a regional basis, or in clusters, it is important to already put in place a number of EU regulatory building blocks and principles in order to support the development of liquidity in emerging hydrogen markets. In line with the development of the common Internal Energy Market, the objective should be the creation of an open, liquid, transparent and competitive EU hydrogen market with unhindered cross-border trade.

I - Principles for the regulation of dedicated hydrogen networks

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 a traded hydrogen market. For dedicated new hydrogen pipelines just as for retrofitted gas infrastructure, it is important to ensure harmonised requirements for network access on a non-discriminatory basis, as is currently required by EU natural gas regulation. We support early EU-wide regulatory intervention in this aspect to ensure third-party access for new pipelines and a clear 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 and third-party access to storage must be ensured, where relevant.

Clear unbundling of regulated transmission and distribution network activities is a key starting point for energy commodity markets, including any future hydrogen market. 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 (future) hydrogen market, 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.

Blending hydrogen into natural gas networks will help to make sure the natural gas grid is used efficiently, but should be based on established principles and rules applicable to network operators and users. For this purpose, standardisation of gas / hydrogen qualities and blending ratios are essential to protect sensitive systems and appliances, while recognising technical limitations and regional differences in blending capabilities. To enable interoperability and EU wide trading these should be harmonised as far as reasonably possible.

European network planning and development for hydrogen pipelines 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.

Technology neutrality for the feed-in of hydrogen, regardless of the form of production used, into networks is important to quickly build up sufficient supply quantities.

II - Building blocks of a liquid and competitive hydrogen market

In addition to the above fundamentals, requirements for network access, market roles and balancing for hydrogen networks should draw on existing EU regulation for natural gas and as far as possible, be integrated therein. This will create long-term reliability and predictability for market participants. The regulatory regime should also offer some degree of flexibility in case regulation needs to be adapted to support the development of the hydrogen market.

The following aspects should be considered:

- **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.
- **The development of a separate target model for hydrogen, while drawing on experience and market infrastructure from the natural gas market.** A defined commodity target model will help liquidity to develop more quickly. As organised markets, natural gas exchanges and trading platforms have significant experience in bringing together diverse market participants to match supply and demand. The ability to trade on this type of regulated venue provides significant benefits (market transparency, pooled liquidity, secure and anonymous trading), while the resulting price signals provide an important reference for the market.

- **The trading of Guarantees of Origin (GOs), reflecting the climate value of hydrogen, should take place on dedicated markets** separately from the commodity trading. Establishing European standards for hydrogen quality and a European GO system for hydrogen are important factors to develop a traded market that can take into account the different carbon footprint of the hydrogen production.
- **While it may be too early to define products and the extent to which they should mirror the natural gas market, standardisation will be important.** Product design will be driven by commercial needs as well as the characteristics of renewable or low-carbon hydrogen. REMIT has proved to be an effective piece of regulation tailored to energy markets, to ensure integrity and transparency. While it is too early to consider application to the hydrogen market at this stage, it would be a natural step once the market is sufficiently mature.

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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