



– Consultation response –

## **Feedback to the Commission IIA on ‘Hydrogen and Gas Markets Decarbonisation Package’**

Brussels, 10 March 2021 | The progressive evolution of the gas legislative framework is a necessary prerequisite to ensure gas markets are ready to integrate and foster the use of renewable and low-carbon gases while maintaining a high-level of security of supply and guaranteeing an efficient price formation. Traded markets for hydrogen and other decarbonised gases, supported by dedicated certificates and/or Guarantees of Origin (GOs), will have a key role to play in the decarbonisation of the EU energy system, in line with the European Green Deal and the 2030 and 2050 targets. In addition, traditional natural gas markets will need to remain in place during the transition period and their well-functioning must not be undermined.

The future regulatory framework for decarbonised gases should build, to the extent possible, on the successful blueprint of the existing European wholesale gas market, which has established well integrated markets and liquid trading hubs. Although traded markets for renewable and low carbon methane and hydrogen are not yet mature, establishing clear principles in the regulatory framework (including non-discriminatory network access, clear unbundling rules and cross-border interoperability) will support the uptake of decarbonised gases and will help to provide the predictable framework needed for liquid and competitive gas 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. 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 efficient and competitive 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.

**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.

## **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 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 gas GO system are important factors to develop a traded, liquid market that can take into account the different carbon footprints of the gases.
- **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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