

ENTSOG HIGH-LEVEL POSITION ON HYDROGEN AND DECARBONISED GAS MARKET PACKAGE

ENTSOG recognises the urgent need to review the existing EU gas legislation to consider the demands of the energy transition and reach the EU's energy and climate goals. In this respect, ENTSOG welcomes the European Commission's (EC) publication of the Hydrogen and Gas Market Decarbonisation package, underlining the importance of hydrogen in the future gas market. However, ENTSOG finds that the package could address EU goals with more efficient measures to facilitate the swift uptake of renewable and low-carbon gases and the development of a dedicated infrastructure by fostering repurposing of existing gas infrastructure, allowing for more synergies and ensuring security of supply for the societal benefit.

ON FINANCING THE HYDROGEN NETWORK

ENTSOG welcomes the EC's proposal to allow financial transfers between regulated services for gas and hydrogen via Article 4 of the recast Gas Regulation as one way, amongst others, to finance hydrogen networks. However, there should be some degree of flexibility for Member States in this matter.

Secondly, ENTSOG does not understand the reasoning behind the limitation in time of one third of the depreciation period of the infrastructure concerned for such financial transfers. We believe that any such financial transfer should be able to continue until such time as there is sufficient demand on the hydrogen system for hydrogen network tariffs to finance the required hydrogen network infrastructures.

ON THE PROPOSAL FOR ZERO TARIFFS FOR RENEWABLE AND LOW CARBON GASES AT INTERCONNECTION POINTS

EC's proposal to have an ex-post discount for renewable and low carbon gases in interconnection points of the natural gas networks risks fragmenting the gas market, with adverse impact to its functioning. Maintaining current interconnection point tariffs for renewable and low carbon gases in the gas system should therefore be preferred. Instead, it would be more efficient and economical to implement a climate value market, based on integration of Guarantee of Origin (GO) and Proof of Sustainability systems to promote renewable and low carbon gases.

The introduction of (i) an inter-TSO compensation (ITC) mechanism for renewable and low carbon gases in the gas net-

work; and (ii) a system of financial compensation to ensure financing for cross-border hydrogen infrastructure (effectively an ITC mechanism for hydrogen) would be unnecessarily complex and overly burdensome. Any uncertainty regarding the compensation scheme is likely to hamper such investments. Indeed, constant re-designing and renegotiation of the two mechanisms would be required to take account of:

- ▲ any change in the share of renewable and low carbon gases in the total gas consumption,
- ▲ any new connection to the hydrogen backbone and/or
- ▲ any change in flow pattern.

Furthermore, it is noted in the EC's Explanatory Memorandum that 'few stakeholders support the removal of intra-EU cross-border tariffs.' ENTSOG believes that tariffs for hydrogen should be based on current market arrangements, i. e. by applying tariffs at cross-border points for hydrogen net-

works inspired by the NC TAR provisions. These could be supplemented, where desired, by voluntary cross-border market mergers as already in place for gas in certain EU member states.

ON LOW-CARBON GASES

Whilst ENTSOG welcomes the inclusion of low-carbon gases and low-carbon hydrogen within the proposed recast Gas Directive, we are concerned that the methodology to calculate the 70 % greenhouse gas saving threshold will not be determined until the end of 2024 (i. e. after the adoption of the recast Gas Directive). This will make related definitions obscure and difficult to apply in practice. The proposal should give certainty to market players and member states about which types of gases can qualify as low carbon. ENTSOG asks the EC to clarify the

definitions of low-carbon gases and low-carbon hydrogen to coincide with the adoption of the recast Gas Directive. Furthermore, ENTSOG is proposing a climate value market where a GO+ scheme (i. e. the current Guarantee of Origin with additional information on the GHG emission) would be the single currency to use for the EU ETS or any target compliance. This scheme would not fragment the single gas market and would be easier and cheaper to implement.

ON THE PROPOSED "EUROPEAN NETWORK OF NETWORK OPERATORS FOR HYDROGEN"

Instead of considering energy vectors such as gas, electricity, and hydrogen separately, energy regulation should encourage their interlinkage and integration in order to maximise efficiency and synergies. Achieving this integration will require the removal of the "silo approach", which prevails in existing energy. ENTSOG welcomes the recognition of hydrogen under the gas market design, following its underlying principles. However, the creation of a European Network of Network Operators for Hydrogen ("ENNOH") must be clarified and build on the existing synergies between gas and hydrogen and further integration of ENTSOG and ENNOH regulatory tasks. Otherwise, this will lead to unnecessary fragmentation of the energy system, disintegration of gas and hydrogen modelling and planning activities, and it will create greater administrative burden when the EU needs to take quick and efficient actions. ENTSOG calls

for the full integration of hydrogen and gas network activities, such as network planning and security of supply, to provide a sound framework for hydrogen market growth, especially while the hydrogen market remains immature. ENTSOG has developed the necessary expertise and experience to fulfil specific hydrogen activities and the Ten-year Network Development Plan for Gas 2022 is already designed to assess hydrogen infrastructure to comply with the future TEN-E. The assignment of network planning and security of supply activities to a separate entity for hydrogen when there is no existing cross-border infrastructure and in times of climate change challenges will delay the overall energy transition. ENTSOG also supports close cooperation between ENNOH and ENTSOG in network code development and monitoring of their implementation and effect.

ON VERTICAL UNBUNDLING PROVISIONS

ENTSOG believes that the EC's proposal risks stifling or delaying investment in hydrogen infrastructure and undermines network development. The future EU hydrogen network will be largely developed through the repurposing of existing gas infrastructure assets. This repurposing can be achieved at a fraction of the societal cost of new infrastructure construction. Gas transmission operators are ready and willing to invest in the repurposing of gas assets. Indeed, for ENTSOG TYNDP 2022, promoters have already submitted 88 projects in the hydrogen infrastructure category and 73 further transmission projects for the safe, secure and efficient transport of up to 100 % hydrogen and/or contributing to fuel switch. However,

ENTSOG notes with concern that the EC proposal does not recognise the above initiative and instead creates additional regulatory hurdles.

Both the EC and EU regulators have confirmed that the current unbundling models for energy infrastructure have served the EU well and been proven to function well. The hydrogen infrastructure is likely to share the same structural features as the electricity and natural gas transmission networks. Therefore, there is every reason to assume that all three unbundling models (including the ITO model in the hydrogen sector) could also be effectively applied to hydrogen network operators.

In addition, the proposed unbundling models for hydrogen networks would prevent gas network operators under the ITO model in numerous Member States from owning and operating a hydrogen network after 2030. This would have the immediate practical effect of disincentivising investment by ITO TSOs in the period before 2030 and undermine the creation of a European hydrogen backbone system.

ON THE TOLLING MODEL

To enable and foster decarbonisation, regardless of their unbundling models, TSOs should be allowed to invest in decarbonisation technologies and innovative projects enabling sectoral integration, such as power to gas under a tolling model. TSOs have the advantage of existing resources and experience regarding market design and functioning (know-how, companies already active that could diversify quicker than a newly established company).

This option should be offered in the revised Hydrogen and Decarbonised Gas Market Package since it is in line with the Union principles for the energy system such as competitiveness, transparency, and fair and non-discriminatory access to

Without an ITO-model for hydrogen, the divestment of hydrogen assets or the outsourcing of hydrogen network operation activities to an Independent Hydrogen Network Operator would be mandated, thereby losing the benefits of operational synergies. Both options are a clear dis-incentive for investments in hydrogen infrastructure. ENTSOG therefore proposes to remove the 2030 time-limitation applicable to the ITO model in Article 62 (4) of the draft recast Gas Directive for the ITO ownership model, as proposed by the EC, and allow it as an option even after 2030 for hydrogen activity.

infrastructures. Power to Gas facilities will operate at the interface of the electricity and gas sector. Under a tolling model (a proven concept which has been used across different economic systems and industries), the owner and operator of the facility provides energy conversion or other services and is only responsible for operating such facilities. Current rules for gas, and future rules for hydrogen, would be respected as the TSO, or a related entity, owning and operating such a facility would not engage in trading or supplying those commodities (i. e. electricity, gas, hydrogen). This sharing of the investment risks between the users and the operator will allow smaller market participants to enter this new market.

ON HORIZONTAL UNBUNDLING

ENTSOG fully agrees with the EC's objective in Recital 68 of the recast Gas Directive that "the joint operation of hydrogen networks and gas or electricity grids can create synergies and should thus be allowed".

Gas network operators should be able to also become hydrogen network operators, subject to NRA approval. The separation of regulatory asset bases (RABs) (so called "accounting unbundling") for natural gas and hydrogen networks as stipulated in Art. 64 of the Directive ensures sufficient transparency to trace any financial transfer between natural gas and hydrogen under the close scrutiny of regulatory authorities and subject to their approval. An additional legal separation between HNOs and TSOs is therefore not proportionate and would only create unnecessary costs and administrative burden (e. g. complications regarding land-use authorisations in the process of transferring assets between the two legal entities). As such, ENTSOG proposes to delete Article 63 on horizontal unbundling of HNOs.

In addition, the rules set out in Articles 36 and 50, 57 of the recast Gas Directive, regarding disclosure of commercially sensitive information and operation of joint services, could result in a situation where some synergies between TSOs and HNOs could be prevented, to the detriment of consumers and wider society. Limitations on information exchange and cooperation between gas and hydrogen network operators could furthermore easily jeopardise effective infrastructure planning.

Furthermore, the concept of combined operator(s) should allow one single entity to carry out two or more of the following natural gas and hydrogen activities: gas transmission, gas distribution, LNG regasification, gas storage, hydrogen network activities, hydrogen terminal, and hydrogen storage.

ON PROVISIONS FOR GAS AND HYDROGEN QUALITY HANDLING

ENTSOG welcomes the inclusion of provisions on gas quality (GQ) handling, which reflect the need for TSOs to manage GQ to provide a smooth functioning of dedicated networks for methane and for hydrogen as well as the blending pathway, as relevant and necessary for users. For the blending pathway, TSOs are ready to accept the task of ensuring efficient GQ management in their facilities, in line with applicable gas quality standards, provided their investments and related costs are recognised by the regulatory framework. For this, TSOs need the possibility to assess new connections to the network against the stability of GQ parameters like the Wobbe Index.

ENTSOG is of the view that the legislation should be more specific regarding the rights of TSOs to operate facilities for the blending/deblending of gases and to provide the respective services, to ensure gas quality management.

In principle ENTSOG supports the introduction of the 5 % hydrogen content cap and the process of dispute settlement. ENTSOG does however believe that exemptions from the acceptance of this hydrogen share should be possible, with approval of the regulatory authorities and the European Commission, in duly justified cases.

ON SECURITY OF SUPPLY PROVISIONS

ENTSOG appreciates the amendment of the Security of Supply Regulation with the inclusion of renewable and low-carbon gases and the introduction of a multitude of preventive measures, already tested in some member states, such as obligations for storage filling or strategic stocks and their possible usage in a Security of Supply crisis, based on regional risk assessments. Discussions with all relevant stakeholders will be needed to clarify the procedures for purchasing strategic stocks and their subsequent usage including the recognition to the TSOs or other undertakings designated by the member states of any costs borne, so that no financial risk would arise for them.

ENTSOG also welcomes the inclusion of cost-coverage for Cyber Security (CS) in the revised SoS Regulation. However, ENTSOG believes that before developing a separate network code for CS, a careful evaluation of the effectiveness of the implementation of the NIS directive should be conducted.

ENTSOG remains committed to working together with all stakeholders, especially the European Commission to enable efficient and economical development of hydrogen infrastructure and achieving the EU's energy and climate goals.



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