Initiative Energien Speichern e.V.
Glockenturmstraße 18
14053 Berlin

Tel. +49 (0)30 36418-086
Fax +49 (0)30 36418-255
info@energien-speichern.de

www.energien-speichern.de

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EU Directive on Common Rules for the Internal Markets in Renewable and Natural Gases and in Hydrogen

Response

Berlin, 12th April 2022

About Initiative Energien Speichern e.V.

INES is the association of gas and hydrogen storage system operators in Germany. INES' members represent over 90 per cent of German gas storage capacities and account for about 25 per cent of gas storage capacities in the European Union. INES' member companies also push the development of underground hydrogen storage in numerous projects and thereby form pioneers in this important technology field for the energy transition.

Preliminary Remarks

The European Commission presented a proposal for a Directive on on common rules for the internal markets in renewable and natural gases and in hydrogen on December 15, 2021. With this legislative initiative EU gas rules will be adapted to ease market introduction of renewable and low-carbon gases and eliminate inadequate legal obstacles.

Feedback on the Commission's proposal can be provided until April 12, 2022.

INES thanks for the opportunity to participate in this consultation and hereby provides feedback and specific aspects of the Directive that will directly and indirectly influence the gas storage sector.

Certification (Article 8)

The EU directs its actions towards reaching a carbon-neutral economy. This means GHG emissions must be reduced far beyond the energy sector. Resource efficiency and a circular economy become more and more important in a sustainable economy.

In the light of this situation, certifying green electricity does not nearly suffice. Even extending the existing system by certificates for carbon-neutral gases would not suffice to establish fact-based transparency on energy deployment and other resources providing a solid foundation for political and economic action in the interest of energy and climate targets.

A comprehensive and objective energy certification is a prerequisite to make sure that market-based decisions are oriented towards climate protection targets but taken freely and especially cost-oriented elsewise. The advantage would be that markets could derive individual clear perspectives on their energy deployment based on such a certification system.

Such a market-based foundation for decisions is also important for infrastructures. Eventually, based on such a system, a consistent and conflict-free vision that also takes a medium-term perspective on security of supply should be developed for gas and hydrogen.

Article 8 now introduces rules on the certification of low-carbon gases. Certification of renewable gases is regulated in the Renewable Energy Directive (RED). Thus, certification of gases that play a role in reaching carbon-neutrality is regulated in two different places. This implies a risk that EU rules could fall short of creating a uniform certification system. **INES therefore proposes that certification of not only gases but all**

energy carriers should be regulated in a separate "Energy Certification Directive" (ECD).

A key aspect of the new rules under Article 8 is a 70 per cent threshold. A method to evaluate GHG reductions shall be adopted until the end of 2024 in a Delegated Act. This time span seems quite late given that the current threshold gives no clear orientation for market actors, but an early and quick market run-up is politically desired. **INES would welcome an earlier planned date of adoption for the Delegated Act to clarify the situation for market actors as quickly as possible and thereby contribute to a quick market run-up.**

INES also encourages the EU institutions to limit energy certification not only to CO2 emissions but observe other impact categories following the do-no-significant-harm principle. Moreover, INES recommends taking the whole life-cycle of energies into account with regard to the calculation methodology.

Hydrogen Storage Regulation (Article 33)

In the light of the premature state of the hydrogen market, a regulatory intervention concerning the access to and tariffs of hydrogen storage facilities is not necessary. No commercial hydrogen storage facility has started operating, yet. To begin with, their development makes progress within completely integrated value chains. Regulatory provisions would be counterproductive for this development and therefore form an impediment for the run-up of hydrogen markets. Introduction of an access regulation regime would be understandable when a demand-driven market is established.

As competition between different locations of hydrogen storage facilities or hydrogen storage zones will continue, the introduction of a hydrogen storage tariff regulation os not necessary. To secure faire competition within the internal EU energy market, the Directive should not even provide the option to introduce tariff regulation regimes. A separate introduction of tariffs could have market-distorting effects between nation hydrogen storage markets within the EU internal market.

INES understands that Article 33 formulating „ when technically and/or economically necessary" creates the liberty for every member state to decide that access regulation shall be introduced only at a later stage. Article 33 should be reduced to an access regulation (without tariff regulation).

Hydrogen Network Regulation (Articles 31, 51, 52, 63, 64 und 69)

Based on Article 31, EU member states shall introduce an access and tariff regulation regime for hydrogen networks at least until January 1, 2031. **INES welcomes that**

hydrogen networks can be developed in a market-based and competitive framework as long as hydrogen markets have not reached adequate maturity levels. The current early market development phase leaves market actors with great uncertainty. A market-based approach therefore ensures that network demand is well-founded.

As long as hydrogen markets are separated in the member states there should also be no tariff regulation at all. Competition between different hydrogen clusters already puts pressure on tariff developments such that simulating competition is not necessary. **Member states should have sufficient liberties under Article 31 to decide upon further steps towards a tariff regulation.** Harmonization of network tariffs can be prepared early on through the development of Network Codes that also provide orientation for further integration of the internal market for hydrogen in the future.

Provisions to report on hydrogen network development that are introduced under Article 52 will sufficiently increase transparency on hydrogen networks. Moreover, the proposed procedure takes into account a market-based network development in the beginning. **INES therefore welcomes the reporting rules for hydrogen networks as they constitute a well-balanced provision.**

In the light of the decision to introduce an access and, later, network tariff regulation, introducing a legally-binding Ten Year Network Development Plan for Hydrogen (TYNDP-H) should be considered. The existing reporting provisions create a solid foundation for this procedure.

Article 62 introduces vertical unbundling (independent network operation) and Articles 63, 64, and 69 create horizontal unbundling rules (separated hydrogen, electricity, and natural gas networks).

INES explicitly welcomes that network operators shall be unbundled not only vertically but also horizontally under Article 63. Unbundling operators of natural gas and electricity networks from operators of hydrogen networks provides for transparency on network tariff development, freedom of choice concerning connection customers, and a cost-efficient network development based on cost allocations that follow the costs-by-cause principle.

Unbundling accounts of network operators under Articles 64 and 69 is a logical consequence and, in fact, imperative for a transparent and comprehensible network tariff development.

Transferring these rules to other operators of hydrogen systems, however, seems only senseful if these systems underly a tariff regulation regime. If prices are defined in a competitive environment, unbundling of accounts is not only unnecessary but also implies additional costs without good reason. **INES recommends that unbundling of accounts shall not be applied for hydrogen and gas storage system operators as they will not underly a tariff regulation regime in the medium- and long-term.**

Ten Year Network Development Plan (TYNDP) for Natural Gas

Article 51 specifies natural gas network development rules and provides an important supplementation. **As recent academic studies and future modelling forecasts decreasing demands for natural gas networks, adding the aspect of decommissioning to the network development planning is imperative.**

Adjusting natural gas network development consequently in accordance with national energy and climate plans and their updates helps to identify unnecessary network investments and develop avoiding strategies. An integrated scenario framework – at least for electricity and natural gas system operators – is an additional auxiliary provision.

However, it is important that the TYNDP for natural gas stays an individual planning instrument for system operators and provides a basis only for investments in natural gas networks. Infrastructures that are not regulated (e.g. storage facilities) should not have to be planned in a binding way within the TYNDP framework. **Transferring the binding, planned-economy approach of the TYNDP to the market-based storage sector would lead to fundamental contradictions.**

Your INES Contact

Sebastian Bleschke
Management Director

Tel. +49 30 36418-086
Fax +49 30 36418-255
s.bleschke@energien-speichern.de

Transparency Note

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INES is also registered in the EU Transparency Register. The entry is available at https://ec.europa.eu/transparencyregister/public/consultation/displaylobbyist.do?id=289476237584-12&locale=en#en.