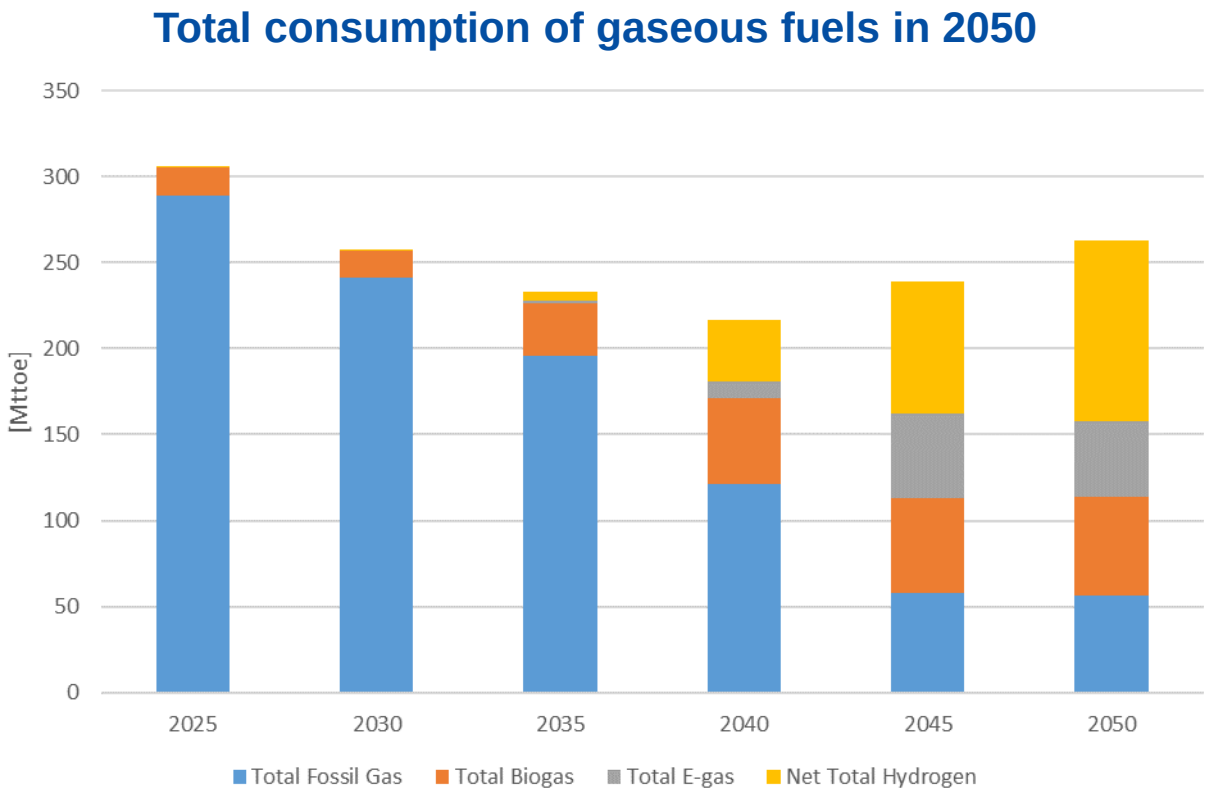
Fit for 55 package

HYDROGEN AND GAS MARKETS DECARBONISATION PACKAGE

ERRA Presentation
02-03-2022

Expected changes in the composition of gaseous energy carriers in the EU towards 2050



- Gaseous fuels will represent approximately 20% of final energy consumption in 2050
- Shift from unabated fossil gas towards renewable and low-carbon gases
- Gaseous fuels in 2050 to include mainly biogas, bio-methane, renewable and low-carbon hydrogen as well as synthetic methane

Source: European Commission PRIMES, MIX scenario

European Commission

Hydrogen and gas markets decarbonisation package: 5 policy aims

Aim of legislative proposals:

I. Facilitate access of **renewable and low-carbon gases** to existing gas network

II. Enabling development of **dedicated hydrogen** infrastructure and market

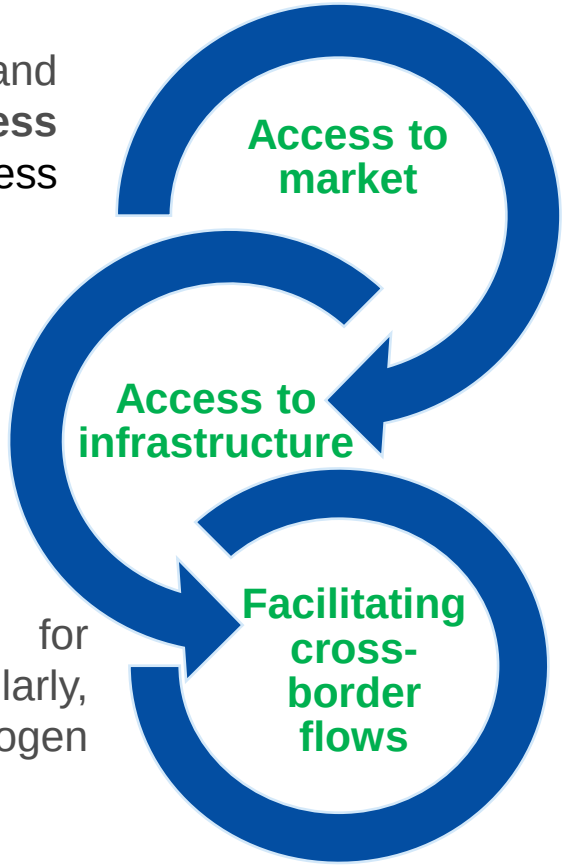
III. Fostering **network planning** electricity, gas and hydrogen

IV. Promote **consumer protection and engagement** in renewable and low-carbon gas markets

V. Improve **resilience and security of supply**

I. Facilitating access of renewable and low-carbon gases into the existing natural gas network

- ✓ Allowing and promoting renewable and low-carbon gases **full market access** including: wholesale market access physical flexibility - revers flows.
- ✓ Measures to facilitate **gas storages and LNG terminals** to **receive** renewable and low-carbon gases
- ✓ **Removing cross-border tariffs** for renewable and low-carbon gases. Similarly, in the future for dedicated hydrogen network.



- ✓ More **transparency and better use** of free capacities at **LNG terminals and gas storages** allowing more flexible gas trade and use of the terminals and storages.
- ✓ **75% tariff discount** for the **injection** and connection of renewable and low-carbon gases.
- ✓ Introducing a **5% cap for hydrogen blends** at interconnection points between Member States to avoid cross-border flow restrictions due to differences in blending, which network operators must accept. No blending obligation; voluntary agreements for higher blends possible.

- ✓ **Ban for Long-Term Contracts for unabated fossil gas by the end of 2049.** Short term supply, with contracts below one year, important for security of supply and market liquidity reasons will still be allowed.

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5% allowed cap for hydrogen blends at interconnection points

Articles 20, 65(7) Gas Regulation; Annex 7 and table 50 of IA

- It is a cap, not a blending obligation. It means that transmission system operators must accept at interconnection points max. blend of 5% to avoid market segmentation.
- Provides a process to agree on the practical implementation (technical solutions and financing) with clear roles for market participants and regulators.
- It applies at interconnection points between Member States. It does not set a cap for a Member State's domestic network.
- Voluntary agreements for higher blends at interconnection points between Member States remain possible.
- In line with the Hydrogen Strategy: reflects the priority to use hydrogen in its pure form.
- 5% was found by studies cost-efficient in terms of abatement and adaptation costs for end-users and infrastructure operators.

II. Enabling development of dedicated hydrogen infrastructure and market

REGULATORY FLEXIBILITY IN TRANSITION PHASE (UNTIL 2030)

- Flexibility for network operators and network users to agree on tariffs (so-called negotiated TPA).
- Separation of hydrogen production and supply activities from transport activities (so-called vertical unbundling): OU, ITO, ISO allowed.
- Legal separation between natural gas and hydrogen network operators (so-called horizontal unbundling).
- Cross-subsidization of hydrogen networks by natural gas network revenues is allowed, but must be transparent. The cost can only be levied on domestic users + limited in time + subject to regulatory approval.
- Targeted and temporary exemptions for existing private hydrogen networks.
- Regulated TPA regime for H2-storage. Negotiated TPA for H2 terminals
- EU level representation of hydrogen network operators via establishment of the European Network of Network Operators for Hydrogen (ENNOH).

CLEAR REGULATORY PERSPECTIVE FOR END PHASE (AS OF 2030)

- Regulated access regime (so-called regulated TPA): set or approved by regulator
- No network tariffs at cross-border points of the hydrogen network.
- Targeted exemptions for hydrogen valleys.
- Equal regulatory regime for intra-EU and import pipelines.

III. Fostering network planning: electricity, gas and hydrogen

Single network development plan at national level of all gas TSOs.

Gas network operators include information on infrastructure that can or will be decommissioned (and could potentially be repurposed for transport of hydrogen).

Alignment with National Energy and Climate Plans (NECPs) and Union wide Ten Year Network Development Plan.

Separate hydrogen network development *reporting* to ensure that construction of hydrogen system is based on realistic and forward looking demand projection.

Separate hydrogen network development reporting

- Lighter reporting approach corresponds with emergent development hydrogen network.
- No regulatory approval of report. Why? Under initial TPA-regime tariffs are negotiated between network users and operators and not set/approved by the regulator (on basis of required investments included in network development plan)
- Report should create transparency in development hydrogen network for stakeholders and facilitate H2 PCI-projects selection under revised TEN-E

IV. Promote consumer engagement in renewable and low carbon gas markets

Enable consumers to choose renewable and low-carbon gases

Mirroring consumer protection and empowerment provisions from Electricity Directive, whenever feasible and adaptable to the gas market

For hydrogen:

INCLUDED: Basic consumer rights

EXCLUDED: measures to foster retail/household market and encourage demand

Mirroring Electricity Directive provisions on regulated prices.

Allowed under specific conditions for:

1. Energy poor and vulnerable consumers
2. Households and microenterprises

V. Improve resilience and security of supply

- Adaptation to the **energy transition and new risks** (e.g. cybersecurity)
  - *Extended to renewable gases and low-carbon gases, future common cybersecurity rules specific to the gas sector by a delegated act.*
- Making **solidarity** between Member States operational
  - *New arrangements applicable by default, clarification and ex-post control of compensation costs.*
- More effective gas storage, enhanced **European role of storage**
  - *Part of mandatory risk assessment at regional level, and where necessary in relevant plans, consultation of Gas Coordination Group.*
- Enabling voluntary **joint procurement** of strategic stocks:
  - *Preventive measures for emergency, incl. in case of EU crisis, discussed in Gas Coordination Group, Commission's report of experience on storage and joint procurement of strategic stocks.*

Move from security of supply to resilience

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Thank you