



- Consultation response -

## **Europex response to the CEER Public Consultation on Regulatory Challenges for a Sustainable Gas Sector**

Brussels, 17 May 2019 | Europex is pleased to contribute to the present consultation on a sustainable gas sector and welcomes the associated stakeholder dialogue. We are convinced that gas will continue to play an important role in the future energy mix as a flexible source of energy, able to compensate for the growing share of intermittent renewable sources and to act as a large-scale energy carrier.

In view of the EU's 2030 and 2050 climate and energy goals, it is clear that the gas sector will have to undergo a transformation process and that renewable and decarbonised gases will play an increasingly important role in the future gas mix.

Making the energy transition a success requires cross-sectoral cooperation and a strategy for an optimised and cost-effective use of resources and infrastructure. A comprehensive sector coupling strategy and an adaptive regulatory framework will be required to do both, addressing the challenges ahead and retaining and optimising the market principles in place.

Sector coupling and sector integration, i.e. the extension to other sectors like heating/cooling, mobility, etc., must go hand in hand. Further connecting the gas and electricity sectors and their infrastructures will help to release more system and grid flexibility. This enables the integration of a steadily increasing share of renewable energy in the system ("*smart increase of electrification*" and the "*greening of the gas*" at the same time). This flexibility would then also benefit the decarbonisation efforts in the other sectors as more options will be available.

It is of great importance that any changes to the regulatory framework for gas take into account the reality of physics and traded gas markets which can and do differ from the characteristics of the electricity market. Therefore, not all principles applied in the Clean Energy Package are necessarily applicable to the gas sector and should be carefully assessed before being 'mirrored'.

The stepwise liberalisation of the European gas market over the past twenty years has brought great benefits for European consumers. The well-functioning of the established wholesale gas market must

be maintained and existing rules should be consistently implemented before considering changes to the market design.

### **Regulatory challenges for renewable gases**

**B3. Under which circumstances or conditions should hydrogen networks be regulated, and should this regulation be in the same way as gas networks or are there alternatives? Please explain your reasoning.**

Hydrogen networks should fall under the same rules as conventional gas networks to ensure a level playing field and to promote competition and open grid access - if the hydrogen is used as an energy carrier in the public energy supply for households, industry, commercial consumers and power plants. In our view, the establishment of an extensive parallel new infrastructure should be avoided wherever possible to ensure economic efficiency.

**B4. Is 'cost efficiency' a legitimate reason for pro-active market intervention which may be contrary to a general "technology neutral" approach? Please explain your reasoning.**

As regards infrastructure planning, Europex calls for a forward-looking and integrated approach to gas and electricity network planning, taking into account sector coupling aspects as far as possible. Levies, taxes and tariffs should be regarded in a cross-sector approach as part of an overall sector coupling strategy to avoid creating unnecessary barriers to sector integration.

Freely formed price signals must constitute the very basis of an efficient sector coupling strategy as they incentivise economic efficiency. As an example, power-to-gas plants could be used in cases of electricity over-supply (for instance caused by high wind production) indicated by low electricity prices in the market.

**B5. Which role do you see for power-to-gas infrastructures?**

Any sector coupling strategy must contain a clear definition of roles and responsibilities. When integrating sector coupling technologies such as power-to-gas in the system it is indispensable that the principle of unbundling is fully respected. The Clean Energy Package underlines that "network operators principally should not own, develop, manage or operate energy storage facilities and charging points for EV". We therefore fully agree with the consultation document that this principle should equally apply to the gas sector as well as to any sector coupling activity (such as the operation of power-to-gas, gas-to-power, etc. plants). Guaranteeing an effective and clear separation of networks from activities such as production, trading and supply is a fundamental pillar for achieving the objectives of a well-functioning internal gas market that operates on a level playing field.

## **B8. What is required to facilitate efficient cross-border trading of renewable gas GOs?**

Europex believes that a harmonised EU-wide Guarantees of Origin (GOs) system for renewables can be an effective market-based instrument to track and incentivise the use of renewable gases in the energy system and to maintain the overall integrity of a single gas wholesale market. In addition, such a gas GO system would more actively include consumers in the energy transition by making the origin of gas fully transparent.

The following aspects are important when establishing an EU-wide GO system for renewable gases:

- A maximum of standardisation of GOs for “renewable”, “low-carbon” and “decarbonised” gases for developing the traded market for GOs. The information on the certificate should be based on the requirements as laid out in Article 19 of RED II.
- The standardisation should be developed in close cooperation with the relevant issuing bodies with the overall objective to make them easily tradeable.
- Cancellation of allowances in other member states should be possible as it is currently the case for power GOs. This could be achieved through a model similar to the power GO model:
  - Member state registers remain but they need to coordinate through a common body, like the AIB for electricity. This body could even become an EU body.
  - The requirements for the acceptability of GOs in other member states should be clearly defined. At best, there should be one common standard for all.
  - A coordinated cancellation system is needed to avoid double counting.

In order to establish liquid markets, it is essential that renewable gas GOs can be traded separately from their underlying source. Therefore, a certificate system for gas, similar to that for electricity, should be structured in such a way that a certificate can be traded independently of the commodity. This would in principle enable cross-border transferability of the certificate and would allow certificates from different member states to be traded at the same trading hub.

TSO involvement in the design of the certification scheme should be ensured where technically necessary.

## **Adapting the Gas Market Design**

### **D1. What are the critical points that should be addressed regarding the gas market design?**

Fully implementing and comprehensively applying the key elements of the Third Energy Package must remain a top priority, especially where it is not yet consistently implemented, before envisaging any new changes to the market design.

As shown by the last ACER Market Monitoring Report, gas market integration has significantly improved in Europe in recent years. Gas wholesale markets have shown increasing levels of price convergence and the overall market liquidity has significantly improved. This applies primarily to North-Western Europe, where the Third Energy Package is already consistently implemented. The harmonised rules for capacity bookings and for the design of balancing markets have enabled and fostered the liquidity in many wholesale markets in Europe. Moreover, as mentioned in the consultation document, the EU gas system has provided a high level of Security of Supply (SoS), proving its resilience also in critical situations.

As described in the consultation document, the implementation of entry/exit zones with harmonised rules for capacity bookings, the deployment of balancing market arrangements and transparent methodologies for tariff setting are the cornerstones for the creation of a single integrated gas market in Europe. In particular, the new Tariff Network Code (Regulation (EU) 2017/460) provides stricter transparency requirements on transmission costs to be covered by transmission tariffs. Europex considers the already achieved developments of European gas wholesale markets under the Third Energy Package as a significant success. The creation of the entry/exit zones in the EU has so far significantly contributed to the increase of retail competition and has paved the way to the emergence of hub trading (in the member states that have vigorously implemented the Third Energy Package).

Regarding the debate on the possibility of merging different entry/exit zones, Europex considers that market zone mergers should not be a goal in itself but should rather constitute the result of a ‘bottom-up’ process, if indeed needed. Especially in the light of the energy transition – which will most likely lead to a more decentralised energy system - we believe that precise and undistorted local price signals are of key importance. Such price signals will indicate market and infrastructure needs where they occur. Entry/exit zones that are too large carry the risk that price signals could be too imprecise to be used as an indicator for such infrastructure needs or other types of market inadequacies. There is indeed a risk that the larger the market zones, the less precise price signals become. The current set-up with TTF as the central hedging hub in the EU that is surrounded by local driven “demand hubs” - which have more activity for short term supply - is an efficient set-up.

**D2. Considering the possible development of renewable gases, in your opinion, do you see a need to update the gas market design?**

The integration of renewable gases should not negatively impact the gas market design in place. The objective should be to integrate renewable gases cost-effectively in the existing system.

Europex therefore calls for a regulatory framework that is technologically neutral and allows for further flexibility as already stated in the consultation document. Europex favours the use of market-based approaches, based on reliable price signals, for the integration of renewable gases and a successful sector coupling strategy.

Europex strongly calls for maintaining a single integrated European wholesale gas market. By ensuring the interoperability of the EU gas infrastructure and regulatory set-up, fragmented, less liquid markets for renewable gases should be avoided. Therefore, as a key principle, renewable gases should be fully integrated into the existing (all-)gas market to ensure that the benefits of liquid wholesale markets are immediately available for all gas sources. The development of heterogeneous markets, in contrast, would risk fragmenting liquidity and might create a patchwork of less developed and divided markets. In our view, in a first step the blending of renewables gases (such as hydrogen) in the existing gas grid should be seen as a possible measure of low cost and high impact that could be implemented based on a common regulatory set-up in the EU.

Active cross-border coordination between TSOs and regulators is important to foster and further enable cross-border trading. To be able to still ensure the tradability of the commodity gas, including renewable gases, also across borders, it is important that quality standards are being defined Europe-wide.

The coupling of the electricity and gas sector could be a decisive factor for the speed and success of the energy transition. Sector coupling offers the possibility to release further system and grid flexibility and to put infrastructure and resources to their best use, i.e. for the market and ultimately for the end consumer.

Currently, the debate of coupling the electricity and gas sector is to a large extent infrastructure-driven as the need for physical access / transportation / storage is a prerequisite for the further usage of renewable gases on a larger scale and for their possible role in the sector coupling. As for traded markets, sector coupling is already a reality and part of the daily trading business. Gas and electricity contracts are constantly being optimised according to the price signals of the wholesale market and other relevant factors.

### **About**

Europex is a not-for-profit association of European energy exchanges with 26 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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