



Picture courtesy of Gas Connect Austria

# ENTSO Initial Positions on Hydrogen and Decarbonised Gas Market Package

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Virtual



# The role of gas TSOs in the development of hydrogen networks

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## Rationale

- To maximise synergies between the gas and hydrogen networks to the benefit of society by:
  - facilitating a faster and more economic development of the hydrogen network; particularly by simplifying a transfer of assets (under regulatory scrutiny) from gas to hydrogen activities under Security of Supply standards and avoiding market fragmentation.
  - reduce the ongoing cost of operation of the hydrogen network by making best use of shared resources and expertise.

## Policy Proposal:

Gas transmission system operators and/or their related undertakings (e.g. sister companies) should be able to own, operate and invest in hydrogen networks.

**There should not be** requirements for legal or functional separation between gas TSO's hydrogen transport activities and its natural gas activities.

Separate accounts may be an appropriate model for the hydrogen network activities and natural gas activities only for sake of high transparency.



# What (vertical) unbundling models should apply to hydrogen?

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## Rationale

- The three unbundling models for gas have served well the establishment of the single gas market by providing non-discriminatory access to the gas network.
- The hydrogen network will share the same natural monopoly features of the gas network, and similarly provide an essential service to society - there is therefore no reason to believe the three models could not be applied equally to hydrogen network operators.
- Applying the current unbundling models to hydrogen will avoid the need for restructuring of gas TSOs, thereby enabling them to stay focused on addressing the decarbonization challenge to the benefit of society.
- We also believe that limiting the choice of unbundling models in hydrogen (to OU and ISO only) could go against the principle of Subsidiarity.

## Policy Proposal:

The current EU vertical unbundling provisions for natural gas (OU, ITO and ISO) should be applied equally to hydrogen networks.

Each of these models should be available on an enduring basis (i.e. without an end-date for their application).

# How can we make hydrogen infrastructure accessible for all?

## Rationale

- Since hydrogen networks will share the same natural monopoly features as gas networks, it is essential that access to the network should be ensured through Regulated Third Party Access (TPA) arrangements.
- However, in view of the emergent status of the of the hydrogen market, investment in hydrogen networks should be encouraged by allowing network operators to seek a lighter form of regulation for a limited period of time.
- Since the hydrogen market is expected to develop at different speeds in the various EU Member States, it is important that any 'derogation' from the default TPA arrangements should be flexible.
  - Reliance on a 'one size fits all' approach e.g. by specifying a particular date by which all 'derogations' must end, would disadvantage the slower moving (and, most likely, least economically advantaged) Member States.

## Policy Proposal:

Regulated TPA should apply as the default rule for hydrogen networks from the outset.

However, it should be possible to seek a lighter form of regulation for hydrogen networks, including negotiated TPA, on a case-by-case basis.

This should be seen as a derogation to the default regulatory arrangements and subject to strict conditions, such as those set out in Article 36 of the Gas Directive. Any such derogation should require the approval of the regulatory authorities.

The possibility to seek such a derogation should be an enduring feature of the regulatory framework for hydrogen networks. Also, it should be available as an option to all operators of hydrogen networks.

# Zero tariffs for renewable and low-carbon gases if a RED II proof of sustainability is provided

## Rationale

Having different tariffs for gases flowing in the same pipeline (e.g. biomethane and natural gas) will fragment the market and add complexity:

- A proof of sustainability is an electronic document that can cross borders without the need to nominate physical/ commercial gas flows at an IP.
- This disconnection between sustainability certificates and gas flows seems beneficial in order to maximise the size and liquidity of the commodity and climate value markets.

Reducing IP tariffs to zero means that transportation revenues will need to be:

- collected primarily from exit points to consumers – resulting in large increases in such charges. We do not believe the impact of this has been assessed.
- transferred between TSOs via an EU-wide Inter-TSO compensation mechanism and leading to extremely challenging and time consuming negotiation.

## Policy Proposals:

Regarding pancaking, alternative approaches should be promoted, such as cross-border market mergers where a more local ITC mechanism could be introduced between two or more Member States on a voluntary basis

Regarding incentivising cross-border trade of renewable and low-carbon gases, Guarantee of Origin and proof of sustainability are already been traded cross-border via national registries. ENTSG is proposing technical amendments to RED II to develop this trade of the climate value of gases.

# NO Need for a 'European Network of Hydrogen Network Operators'

ENTSOG should maintain its mandate integrating renewable and hydrogen gases under the TYNDP, including the interlinked model (with ENTSOE), CBA methodology and infrastructure gaps assessment tasks

## Rationale

- **The synergies created would benefit the overall energy system. Inseparable activities already pending under the TYNDP 2022 performed by ENTSOG (Interlinked model together with ENTSOE)**
  - **Project collection for TYNDP 2022 already pending and including hydrogen projects**
  - **Having a link created from the outset between gas and H2, with activities integrated in one organisation, facilitates a quicker integration with the electricity sector.**
  - **The creation of ENNOH is too quick step for an immature hydrogen market. ENTSOG has the adequate structure and transparency requirements to progressively play that role**
  - **Timelines for Implementation unrealistic by 2024 most MS will not have developed hydrogen infrastructure, nor certified H2 TSOs. Will the current Gas Package even be codified by 2024?**
- Inconsistency with H2 Strategy p.15 and TENE governance proposals, articles 10, 11, 12.
  - Highly unexpected for the process and for ENTSOG project collection for TYNDP2022 already pending
  - Without public consultation at any point in time and in any public set up
  - Energy System Integration will suffer:
    - Improportionate vis a vis the member states with different speed of developing their H2 strategies
    - Hydrogen market closely linked to both gas and electricity. Creating a new silo for hydrogen separate from both will only slow ESI, not speed it up. Very confusing for current stakeholders and wrong signal to the future ones
    - Security of Supply and market fragmentation difficult to maintain with multiple actors
  - Timelines for Implementation unrealistic:
    - By 2024 most MS will not have developed hydrogen infrastructure.
    - Current ENTSOs were created in mature markets. ENTSO-H would be created in a very immature market (where many elements of regulated H2 infrastructure have not yet been finalised – many deadlines for regulatory implementation are 2031).
  - Alternative organisation is an administrative burden:
    - How to deal with organisations in both ENTSOG and ENTSO-H?
    - Creating a new ENTSO will lead to additional- and unnecessary – costs.
    - Inefficient competence and resource management
    - Extra red-tape is not in the interest of the consumers – not in the interest of the consumers to have more entities, but more efficient organisations



# Thank you for your attention

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