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BRIEFING FOR COMMISSIONER KADRI SIMSON

MEETING WITH MR. BRABO, GIE PRESIDENT

1 February 2022

Contact point: [redacted] (ENER.C2)/ [redacted] (ENER C3)/ [redacted] (ENER C4) / [redacted] (ENER A4)

SCENE SETTER

- You will meet Torben Brabo, GIE President to discuss the main elements of the Hydrogen and Gas Decarbonisation Package published in December 2021 and the development of energy prices.
- GIE is the association representing the interests of European gas infrastructure operators active in gas transmission, gas storage and Liquefied Natural Gas (LNG) regasification. GIE currently represents 70 member companies from 26 countries.
- GIE is of the position - among others - that TSOs should be allowed to own and operate hydrogen infrastructure and electrolysers, that hydrogen blending is necessary and that hydrogen should not only be used in the hard-to-abate sectors, but in particular in other energy intensive sectors (especially electricity generation) and in heating. [The detailed list of GIE requests as regards the Hydrogen and Gas Markets Decarbonisation Package is included in the Background to this briefing.]

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- Climate neutrality in 2050 means that our gas system needs to be decarbonised in **less than three decades**. Until then, the share of **renewable and low-carbon gases will need to significantly increase** and **gradually replace fossil gas**.

- In December 2021, we published the hydrogen and gas markets decarbonisation package. These proposals **cover the market design for gases, including hydrogen, and access to existing gas infrastructure for renewable and low-carbon gases.**

- It does **not** promise to deliver decarbonisation of gases by itself.

- What it **does do** is to **create the right conditions** to be able to shift from fossil gas to renewable and low-carbon gases in a cost-effective way.

- The package equally introduces **a ban on long-term natural gas contracts beyond 2049.**

- The proposals have **five main policy goals**:

    - **First** – to create cost-effective cross-border hydrogen infrastructure and a **competitive** hydrogen market, so that hydrogen can play a more prominent role in the energy sector.

        - As we ramp up the production and the use of hydrogen, **ensuring the efficient transport of hydrogen** towards demands centres across Europe will be crucial. **Hydrogen pipeline networks** will likely constitute the **most efficient and sustainable means of transport**, especially if we can

repurpose some of the **existing gas networks** for the transport of hydrogen.

- Experience in other sectors has shown that a **well-designed regulatory framework** is pivotal for the efficient use of energy grids.

- Therefore, the proposals sets out new rules for the construction, operation and use of hydrogen networks, terminals and storage facilities.

- The market design for hydrogen centres on **proven principles of energy network regulation**, in particular non-discriminatory **third-party access**, regulation of **access tariffs** and the **separation of hydrogen production and transport** activities.

- The new rules **acknowledge the emergent nature of the EU hydrogen economy** and ensure an appropriate degree of **flexibility for Member States** during the ramp-up phase until 2030.

- The proposal will also **enable market integration** by setting out common rules on the **certification of low-carbon hydrogen** (the proposal for a revision of the Renewable Energy Directive provides for the certification of renewable hydrogen).

- **Second – helping to integrate more renewable and low-carbon gases into the <u>existing</u> gas grid.**

- The proposal makes it cheaper to feed renewable and low-carbon gases (such as biomethane) into the system and **removes tariffs for cross-border interconnections for these gases and mandates the reduction (75%) of injections tariffs for these gases into the grid**. It also ensures that producers of renewable and low-carbon gases have access to the wholesale markets in all Member States, further facilitating trade in this area. This includes as well storage and LNG facilities.

- To avoid cross-border flow restrictions due to differences in blending practices across Member States, the Commission proposes **that up to 5% hydrogen blend must be accepted at interconnection points**. The proposal **does not** set a **blending obligation.** Member States are free to decide whether and to what extend they would like to allow blending in their national networks. It is also possible for Member States to agree on higher cross-border blends on a voluntary basis.

- **Third** – **more integrated network planning** between electricity, gas and hydrogen networks to make the development of energy infrastructure more cost-effective.

- **Fourth** - ensuring the transition to cleaner energy is **fair and just**. We propose to include most **consumer rights** aspects of the Electricity Directive into the proposals for the future gas market. Such rights cover price regulation, support for vulnerable customers, and making it easier to switch energy providers.

- And **fifth** - **improving the resilience of the EU energy system and security of energy supply.** Decarbonising energy will only work if the EU is in a strong position to counter future shocks and if energy security is guaranteed.

    - The proposals reinforce the current regulation on gas security of supply. It's extending and adapting current security of supply arrangements to non-methane gas and emerging cybersecurity risks.

    - The amendment strengthens solidarity between Member States and makes storage an integral part of the risk assessments and preventive measures.

    - The proposal also enables voluntary joint procurement of strategic stocks in case of emergency.

As regards gas storage

- In the package the Commission proposed measures aiming at more transparency and better use of free capacities at gas storages (and LNG terminals) allowing more flexible gas trade and use of the storages (and terminals), i.e. central European transparency platform, booking platforms for unused (secondary) capacity.

- Moreover, demand market tests conducted by gas storage operators (and LNG operators) to prepare for receiving renewable and low-carbon gases, including hydrogen will be required.

- We count on GIE support in bringing forward these proposals.

Regarding high energy prices

- Energy prices remain at the top of the Commission's concerns. In December 2021, gas prices were on average more than five times higher than a year ago.

- The impact is felt on households and businesses, on industrial production and on inflation levels across the EU.

- 2021 closed with a historical peak and an extreme volatility in global gas markets mainly driven by geopolitical tensions.

- Despite a respite at the end of the year with milder weather outlook and additional LNG deliveries from the US, the situation remains very serious.

- According to our estimations, and linked to global gas market tightness, energy prices will remain high and volatile in the medium term.

- At the same time, gas storage levels in the EU are at 45% of their capacity and 10% lower than average compared to last year, at the same period.

- LNG and the use of our regasification capacities will play a key role in ensuring the short term, and we are counting on you and the operators you represent to support this European effort.

- This situation has reinforced our commitment to deliver on the Fit for 55, fostering decarbonisation and reducing our dependence on external markets.

- Switching to renewable gas, hydrogen and biogases will accelerate our energy system integration and will contribute to the decarbonisation of industry and electricity production.

- At the same time, we need to be clear that gaseous fuels such as natural gas will continue to have a role to play in our energy mix. This is why we are proposing the Hydrogen and Decarbonised Gas Markets and Security Package, revising the existing gas market and gas security of supply framework.

<u>Questions to GIE:</u>

- What are your expectations for prices and supplies over the coming months/years?

- What implications do you expect and how are you planning to cope with them?

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Background

GIE position and recommendations on the Hydrogen and Gas Markets Decarbonisation Package

- Role of gas infrastructure operators and unbundling: gas infrastructure operators, including TSOs, should be allowed to participate in decarbonisation activities, supporting the development of innovative technology facilities (including power-to-gas-facilities);
- Existing proven unbundling models (OU, ISO, ITO) should be extended to the hydrogen market;
- Network Planning: No creation of third hydrogen pillar (i.e. European Network of Network Operators for Hydrogen) besides ENTSOG and ENTSO-E. It takes too long to establish a new Hydrogen organization, the existing ENTSO's already have yearlong experience, and time is essential;
- Third Party Access and tariffication: A dynamic regulation evolving with the market and infrastructure development stages, considering basic principles like unbundling, non-discriminatory Third-Party access rules and transparency from the outset, while taking into account the specifics of the hydrogen market;

- Allowing a transparent mutualisation of costs between the different parts of the wider energy system – including gas and hydrogen infrastructure – to ensure cost-reflective and stable tariffs for using the gas and hydrogen infrastructure in the long run for the benefit of all energy users;
- Support mechanisms via European or national funds should be established.

GIE position and recommendations on the methane emissions

- Raising awareness on the mitigation and monitoring technique against methane emissions is essential to uplift the change. Numerous joint initiatives are already in place or under development;
- Investments in MRV, LDAR and mitigation measures undertaken by infrastructure operators should be recognised within the scope of regulated activities by the national regulatory authorities;
- The previous efforts of the gas companies who took early action in mitigation should be recognised and fairly accounted for.
- The most cost-efficient and most optimal methane emissions reduction actions should be prioritised;
- Flexibility and recognition that one type of solution does not fit all the assets, operations and equipment along the value chains are required;
- Legislation should not be very prescriptive as technologies and methods evolve very quickly.

Background on gas storage

- To implement actions enumerated in this “Toolbox Communication” and in order to ensure a more effective functioning of gas storage across the Single Market, the Hydrogen and Decarbonised Gas Markets and Security Package will address the following points:
    - Requirement for Member States to explicitly make storages part of their security of supply risks assessments, both at national and regional level. This assessment would also include an assessment of storage facilities ownership.
    - Measures that Member States should consider in case of unaddressed risks, such as gas storage obligations imposed on storage users, auctions to fill storage with coverage of the shortage of costs or interventions by Transmission System Operators to ensure a minimum volume of gas in the storages.
    - Enabling and conditions for deployment of voluntary joint procurement of gas strategic stocks by regulated entities, in line with energy market regulation and the EU competition rules and to contribute to EU coordinated measures in case of Union wide emergency.
    - Improvement of access to storages by increasing transparency of storage operations and requiring undistorted trade of unused (secondary) capacities on market platforms.
    - Demand market tests conducted by gas storage operators to prepare for receiving renewable and low-carbon gases, including hydrogen in order to support the development of future-proof energy storage.

Background on methane emission reduction proposal

- The proposal for a regulation on methane emissions reduction in the energy sector was adopted on 15 December 2021.
- Methane is the second biggest polluter contributing to climate change, after carbon dioxide. Methane is a potent local air pollutant that causes serious health problems.
- The proposal builds on what we have achieved so far:
    - The Methane Strategy, published in October 2020, which sets out ways to cut methane emissions in Europe and internationally.
    - At the COP26 in Glasgow, the EU and US presented the Global Methane Pledge, a political commitment to reduce collectively global methane emissions by 30% by 2030. So far, 110 countries have already signed up to the pledge.
    - Also at the COP26, we launched the International Methane Emissions Observatory (IMEO), on which we worked with the United Nations Environmental Program. Its purpose is to gather, and improve, key data on methane.
    - The EU's Copernicus satellites have been a vital source of satellite imagery around the work. We intend to make this data publicly available to help further reduce methane emissions.
- The European Parliament resolution of 21 October 2021 on an EU strategy to reduce methane emissions (2021/2006(INI)) asks the Regulation to cover: binding rules on measuring, reporting and verification in oil gas and coal sector; mandatory leak detection and repair (LDAR) programs; strict rules on routine venting and flaring and mandatory mitigation measures for coal mines. The only divergence concerns the EP's request to "make all fossil fuel imports into the Union conditional on their compliance with EU regulations on measurements and mitigation of methane emissions".

- The main objectives of the proposal are: to improve the accuracy of information on the main sources of methane emissions in the energy sector; to reduce those methane emissions; and to increase transparency on the methane emissions profile of fossil energy imports and drive global action to curb emissions.
- Improve the accuracy of information
    - The proposal combines best practices around the world and requires the companies to measure and quantify their asset-level methane emissions and to have them checked by independent verifiers.
    - Member States are required to appoint a Competent Authority to collect the data reported by companies and to make it available to the public.
    - International Methane Emissions Observatory has a role of a verifier of the data supplied to the Competent Authorities.
- Mitigation of methane emissions
    - For oil and gas, the operators will be obliged to conduct frequent surveys of their equipment and repair leaks immediately after detection or as soon as possible thereafter. Moreover, the regulation imposes ban on harmful practices of venting and flaring, restricting it to unavoidable and strictly defined circumstances.

- For coal, the regulation imposes a ban on venting of high-concentration methane from draining stations. For ventilation shafts, which emit large volumes of low-concentration methane, the regulation distinguishes between thermal and coking coalmines. This reflects the availability of clean energy sources alternatives for thermal coal and current lack of competitive alternatives to coking coal used for steelmaking. The proposal imposes limits on venting from thermal coalmines as of 2027 and commits the Commission to developing a tertiary legislation on coking coal mines by 2025.
- With regard to closed or abandoned assets (both wells and mines), the regulation requires the preparation of an inventory of those assets, measurement of emissions and the adoption of a plan to mitigate these emissions.

- Methane emissions of imports
  - Importers are required to submit information about their suppliers as to how they perform measurement, reporting and verification of their emissions and how they mitigate those emissions.
  - The Commission is tasked with the establishment of two transparency tools that will show the performance and reduction efforts of countries and energy companies across the globe in curbing their methane emissions: a transparency database, where the data reported by importers and by EU operators will be made available to the public; and a global monitoring tool, to show methane emitting points inside and outside the EU, harnessing our world leadership in environmental monitoring via satellites.

- The French Presidency's programme includes the plan to "initiate discussions on the proposal for a regulation on methane emissions in the energy sector". The initial presentation of the proposal to the EWP is scheduled for 7 February.

Background on revised TEN-E, PCIs and CEF

- Following the provisional political agreement on the revised TEN-E framework in December 2021, the Commission is now starting preparing the implementation of the new framework including the new infrastructure categories such as hydrogen, electrolysers, and smart gas grids. The first Union list of projects of common interest and projects of mutual interest should be adopted in autumn 2023. Following its entry into force in early 2024, projects should be eligible to apply for CEF financial assistance as of the 2024 CEF Energy PCI call for proposals.

Curriculum vitae

Torben Brabo – GIE President

Torben Brabo is CEO of the Gas TSO in Energinet, the Danish national transmission system operator for electricity and gas – which is an independent public enterprise owned by the Danish state under the Ministry of Climate, Utilities and Energy.

He has 25 years of experience in the energy and gas sector in Denmark and abroad. Prior to joining Energinet, he took part in European power and gas projects as part of the liberalisation of the Danish gas market in 2002-2004.

As the current CEO in Energinet Gas TSO, Torben Brabo is highly involved in European renewable and low-carbon gas projects.

Besides of being GIE's President, **he is engaged in ENTSOG** (European Network of gas TSOs) and the European gas capacity trading platform PRISMA, **and promoting ERGAR**. Moreover, he participates in several decarbonisation projects, such as the Green Gas Initiative and Gas for Climate. He has held a position as chairman of the board of the Danish-Swedish gas exchange 'Gaspoint Nordic'.