



November 2019

# **Eurogas Recommendations for the Decarbonisation Package**

**Enabling the role of gas in a competitive and carbon-neutral EU**

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**Eurogas** is the association representing the European gas wholesale, retail and distribution sectors. Founded in 1990, its members are 48 companies and associations from 22 countries.

Eurogas represents the sectors towards the EU institutions and, as such, participates in the Madrid Gas Regulatory Forum, the Gas Coordination Group, the Citizens Energy Forum and other stakeholder groups.

Eurogas is fully committed to achieving the objectives of the Paris Agreement and supports the European Commission's long-term vision of a carbon neutral economy by 2050.

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For further information contact:  
James Watson – Secretary General  
[eurogas@eurogas.org](mailto:eurogas@eurogas.org)

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[www.eurogas.org](http://www.eurogas.org)

## Eurogas vision on the role of gas in a competitive and carbon-neutral EU

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**Eurogas is fully committed to achieving the objectives of the Paris Agreement and supports the European Commission’s long-term vision of a carbon neutral economy by 2050. Eurogas advocates for an energy transition that delivers a diversified, economically and environmentally sustainable energy mix, that guarantees security of supply, and that allows Europe’s competitive industries to continue to thrive. Gas – natural, renewable and decarbonised – will be essential for the success of the energy transition and for building the carbon-neutral society of the future. Gas is vital across all sectors of the economy and is one of the few energy sources able to become entirely carbon-neutral with potential for carbon-sink solutions.**

Natural gas has already been a key factor in reducing EU emissions since 1990 and can continue to deliver important emissions reductions towards 2030 and beyond. In many regions across the EU, natural gas can still provide quick wins in decarbonisation when switching from fossil fuels with a higher carbon footprint, such as coal and oil. It would enable the EU to exceed by 5% its greenhouse gas emissions reduction target of at least 40% by 2030 in a timely and cost-effective manner.

The existing European gas infrastructure, including its 2.2 million kilometres of gas pipelines, storage and LNG facilities, enable the mass deployment and storage of renewable and decarbonised energy and ensure secure delivery to all sectors of the economy, and provide the flexibility needed to meet daily, weekly and in particular seasonal variations and peak energy demand.

Modelling by Eurogas using PRIMES has shown that gaseous solutions accelerate the deployment of renewable energy and enable a higher overall share of renewable electricity. Other major studies by DENA, ADEME, Navigant and PÖYRY confirm the strong potential and superior cost-efficiency of gaseous fuels to deliver EU climate targets in line with the UN Paris Agreement.

Delivering on the EU’s ambition for a carbon neutral economy by 2050, however, will require a fundamental restructuring of our energy systems. For the electricity sector and the gas sector to become more environmentally sustainable they will have to become increasingly interconnected and integrated with other economic sectors such as industry, mobility, heating and agriculture.

Unlocking the decarbonisation potential of the gas sector requires the rapid development of a supportive policy framework to support and accelerate the transition towards renewable and decarbonised gases and enhance sector coupling. To achieve this, the EU needs to ensure a level-playing field between electricity, gas and facilitate the gradual transition towards hydrogen, biomethane and synthetic natural gas, while maintaining a competitive European energy system and the security of supply.

The recommendations set out in this position paper should guide EU policy makers in the development of modernised regulatory framework that is fit for purpose to support the transition to a carbon-neutral energy system. Achieving the EU’s ambitious climate and energy targets requires a holistic approach to the energy transition, enabling effective sector coupling and the gradual integration of other sectors of the economy.

## Executive summary

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Eurogas sets out its key policy recommendations to ensure a modern regulatory framework that is fit for purpose to support the transition to a cost efficient and carbon-neutral energy system. The recommendations are grouped under **three pillars focusing on the role of investors, infrastructure and markets** in ensuring secure, affordable and sustainable energy supply to EU citizens and industry.

**First, EU policies should create a policy framework that provides direction and predictability to investors in order to create momentum for the decarbonisation of the gas system.**

One aspect of this would be the establishment of a technology-neutral, binding EU-level target for renewable and decarbonised gas, to be implemented at national level through the National Integrated Energy and Climate Plans. In parallel, the rollout of renewable and decarbonised gases should be supported by a harmonized EU framework for Guarantees of Origin covering all gases – renewable and decarbonised – to ensure transparency and tradability across the EU.

A coherent framework should also be established to enable private and public funding to be channelled towards the scaling and integration of renewable and decarbonised gases. When it comes to the definition of rules to determine which future investments should be considered sustainable, policy makers must ensure a technology-neutral approach that qualifies all investments capable of contributing to meaningful emission reductions as sustainable.

Renewable and decarbonised gases will also require some form of public support in order to reach commercial maturity (ad hoc financial support, redirection of existing funding, optimization of the CAP). The benefits for the EU economy (security, resilience, externalities, cost savings) of the deployment of renewable and decarbonised gas will largely exceed the cost of the financial support.

The degree of investor confidence in the long-term stability of the policy framework for gas will also depend on the assurance that methane leakages are being managed responsibly, which will require improvements in terms of transparency and data availability.

**Second, EU policies should aim to leverage the strategic role of gas infrastructure for security of supply, system resilience and ability to support the energy transition in the most cost-effective way. The decarbonisation the energy system cannot be tackled by any single energy vector. Both electrons and molecules will be needed in order to achieve carbon-neutrality while guaranteeing secure and affordable supply of energy.**

Effective sector coupling will not happen on its own and requires that the intermittency and the contribution to system safety and schedulable flexibility are considered and rewarded when comparing different decarbonisation technologies. Policies and economic evaluations should therefore integrate the costs and benefits induced on the system by each decarbonisation option and ensure that adequate price signals are visible for end-customers.

Sector integration – the wider integration of industry, mobility, heating and cooling and agriculture in the energy system – should focus on system optimisation to ensuring that sectors adopt the most cost-effective solutions to achieve decarbonisation. Like sector coupling, this process will require a level playing field for the assessment of decarbonisation options, but it should also take into account the externalities produced beyond the energy system.

Delivering sector coupling and sector integration will require joint infrastructure planning between electricity and gas in the Ten-Year Network Development Plans, at both European and national levels, with a strong involvement of Distribution System Operators. Based on sound principles and a transparent process, the objective is to create a competitive level playing field across sectors and enable the delivery of cost-efficient outcomes for consumers.

Sector coupling and sector integration must go together with the increased decarbonisation of energy vectors. A policy framework is needed that enables new value chains for renewable and decarbonised gases to be developed. All options, including renewable gas such as biogas and biomethane and hydrogen from renewable electricity as well as decarbonised gas, such as hydrogen from natural gas in combination with Carbon Capture and Storage and Utilisation will be needed. In parallel, clear technical rules will be needed that facilitate the integration, in particular of hydrogen in the existing gas infrastructure (blending). Over time, with final demand of pure hydrogen gradually taking up, end users and appliances as well as gas infrastructure can be transitioned to pure hydrogen.

**Third, effective market design should ensure a well-functioning, competitive and integrated internal energy market that creates value and security of supply as well as promoting the integration and trading of renewable and decarbonised gases. The dual challenge for policy makers will be to enable the transitioning to an increasing share of renewable and decarbonised gases while ensuring the continued stability and well-functioning of the internal energy market in order to safeguard the vital role of gas in supporting a competitive European industry and providing affordable energy to consumer.**

With regard to the development of new markets, activities and technologies for renewable and decarbonised gas, such as power-to-gas, Eurogas underlines that the effective separation of networks from activities of production and supply is a fundamental pillar of a well-functioning internal gas market and should be maintained. Emphasis should first and foremost be put on creating the policy and regulatory framework which supports their commercial development. Only if there is not enough appetite to kickstart certain activities and the market is not delivering autonomously, following an open and transparent tendering procedure, a role could be envisaged for other interested parties for a limited period of time, including network operators, to own and develop these assets.

The gas market regulatory framework should be extended to all gases, renewable and decarbonised. Eurogas believes that integration of the electricity and gas sectors will require some degree of convergence in the approach taken for both infrastructure development and market design rules. For instance, to the extent that power-to-gas can offer balancing and security of supply services on the gas and electricity markets, it should be able to access both flexibility markets and compete with other flexibility sources.

Finally, the successful decarbonisation of the gas system will crucially rely on the liquidity and efficiency of the EU gas market. Eurogas encourages further progress to be made in some parts of Europe on the implementation of the Third Gas Package and Network Codes. Specific measures targeted at local levels could be considered on an ad-hoc basis where there are proven structural constraints to competition and liquidity. Eurogas has consistently expressed a preference for market-based, non-distortive mechanisms. For example, excessive standardisation of products or local regulatory barriers can be a limiting factor. This applies across the gas value chain, including gas storage infrastructure and transmission infrastructure, where regulation should not constrain product offering, nor impose barriers to innovation.

## Overview of policy recommendations

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### Policy - Create investor certainty to drive the decarbonisation of the gas system

- Establish a binding EU-level target for renewable and decarbonised gas
- Develop an EU blueprint for Guarantees of Origin covering all forms of renewable and decarbonised gas
- Develop a coherent, fair and unbiased framework for funding research, development and scaling of renewable and decarbonised gas
- Provide governments and the public the assurance that methane emissions are being managed responsibly

### Infrastructure - Preserve the strategic role of gas infrastructure and support its evolution to accommodate growing shares of renewable and decarbonised gas

- Pursue a holistic approach to markets, regulation and infrastructure planning for gas and electricity, to ensure efficient choices, operation and modernisation
- Develop a regulatory framework that incentivises investment to accommodate new CCS and CCU value chains
- Develop adequate blending and technical rules to promote the rollout of new gases

### Market design - Ensure a well-functioning, competitive and integrated internal energy market that creates value and security of supply and promotes the integration of renewable and decarbonised gases

- Define the roles and responsibilities of regulated and market actors to allow the timely and efficient development of new markets, technologies and activities
- Extend the regulatory framework for natural gas to cover all gases, renewable and decarbonised
- Further improve the liquidity and efficiency of the EU gas market

## Eurogas policy recommendations

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### 1. Create investor certainty to drive the decarbonisation of the gas system

An EU policy framework aimed at promoting the integration of renewable and decarbonised gas and providing a stable and predictable environment is key to establish much-needed investor confidence. Binding EU-level targets for renewable and decarbonised gas, a coherent framework for support and sustainable investment rules are essential in order to build and maintain investor confidence.

#### **A. Establish a binding EU-level target for renewable and decarbonised gas**

Eurogas calls for the definition of a binding target at EU-level for renewable and decarbonised gases within a future revised Gas Directive, consistent with the existing EU renewable energy targets and emissions reduction targets to be implemented at national level within National Energy and Climate Plans. Such an EU level target can help to create a predictable environment for innovation and investment in renewable and decarbonised gas technologies.

Establishing the long-term decarbonisation potential of natural gas means that current investments in gas technology and gas infrastructure remain warranted. These assets will not be stranded, as there is an opportunity to convert them for the transportation of renewable gas, hydrogen and CO<sub>2</sub>. In order to reach the EU's 2050 decarbonisation targets most cost-effectively, all technology options to decarbonise the EU energy system are needed.

It should encompass both renewable and decarbonised gas on a technology neutral basis. A target for renewable and decarbonised gas should be underpinned by appropriate sustainability and emission reduction criteria in line with RED II. Eurogas underlines that the level and the trajectory of the target will need to be calibrated with the objective of ensuring an overall cost reduction of the energy transition. Moreover, targets should be accompanied by a suitable economic signal, such as proper carbon pricing policies or equivalent. The details of this approach would need to be carefully developed. Delivery of the target should be based on market measures such as tendering.

#### **Recommendations**

- Include an EU-level target for renewable and decarbonised gas in the reviewed gas market design, that is consistent with the existing renewable energy and emissions reduction targets.
- Ensure adequate implementation of the European target through national contributions, considering local specificities in the energy system, through the National Integrated Energy and Climate Plans.

#### **B. Develop an EU blueprint for Guarantees of Origin covering all forms of renewable and decarbonised gas**

Guarantees of Origin (GO) can prove and disclose the renewable or decarbonised nature of gas. Under RED II, GO will become mandatory for renewable electricity and renewable gas in all Member States and Member States have the option to extend GO also to energy from non-renewable sources, such as decarbonised natural gas.

To support the rollout of renewable and decarbonised gases, a harmonized approach is necessary to ensure transparency and enable the trading of GO across the EU. The various national standards for GO should be harmonised according to a European blueprint, which should be developed in cooperation with the gas industry. European and national registries should be coordinated to enable the tradability of GOs.

Eurogas also considers it essential that all EU Member States issue GO for decarbonised gases, such as hydrogen from natural gas with CCS. This is necessary to enable all decarbonisation technologies to contribute to the transformation of our energy system towards carbon-neutrality.

Eurogas has identified several issues that hinder the cross-border transferability and tradability of GOs:

- Lack of harmonisation and fragmentation of national GO markets limit the transferability of GO across borders.
- Diverging regulatory conditions in different countries (support mechanisms, sustainability requirements, limitations on feedstock, etc.) could lead to market distortions.
- For RES-E installations that are not injecting directly into the grid, a GO will often not be created for the electricity. This could make it impossible for a GO to be created for hydrogen produced from this renewable electricity.
- For RES-E installations that are injecting into the grid, there is the issue of whether a conversion factor/efficiency factor should be developed to account for the energy used to produce hydrogen.
- Eurogas supports a well-functioning ETS, including MSR mechanisms, that provides appropriate market signal for investment in renewable and low carbon technologies. Compatibility between ETS and GO are already recognised in some Member States (i.e. the use of biogas certified by GO implies no need for carbon abatement). Eurogas recognises the rationale and supports linkage with ETS.
- Finally, Eurogas sees large potential for the import of renewable and decarbonised gaseous fuels to help Europe become carbon neutral in 2050. Based on strong monitoring, reporting and verification (MRV) and adequate international harmonisation, Eurogas supports the possibility for international GO to be used within the EU.

### Recommendations

- The Commission should:
  - Issue a recommendation to Member States on the transposition of RED II to encourage them to use the option to issue GO to energy from non-renewable sources decarbonised natural gas as provided for under Art 19 of RED II.
  - As soon as possible, adapt the existing legal framework to remove the 'optionality' of issuing GO for energy from non-renewable and replace it with an obligation for Member States to issue GO for all renewable and decarbonised gases.
- GO for energy from non-renewable sources should have the same features as GO for energy from renewable sources, to ensure the development of a traded market for GO.

- GO should be based on the minimum requirements of Article 19 of RED II, and the upcoming CEN 16325 standard on renewable, low carbon and decarbonised gases. The CEN 16325 standard should be developed in cooperation with AIB, Certifhy, ERGAR and, if any, other issuing bodies. The basic information set for GO should include carbon footprint information and allow to distinguish between renewable and decarbonized gas.
- In accordance with RED II, it should be possible to add additional information on top of the standardised GO and offer more sophisticated products to target specific customers.
- Cancellation of GO in other countries should be possible as it is currently possible for power GO. This could be achieved through a model similar to the power GO model:
  - Member State registers remain, but they coordinate through an EU body like AIB for power;
  - Mutual recognition of GO across the EU;
  - Coordinated cancellation systems to avoid double counting.
- Even if a GO for non-renewable low carbon gas has not been put in place in one Member State, that Member State still has to recognise this GO from another Member State according to article 19.9 of RED II.
- Apply RED II definitions with regards to the difference between sustainability certificates and GOs and make possible to upgrade a GO into a sustainability certificate. This would clarify potential issues such as possible compatibility with support schemes or issues linked to double counting.
- Ensure that customers are well-informed about the environmental gains of new gas sources and related products, e.g. through their bills.
- Enable the use of GO for renewable and decarbonised gas for compliance with CO<sub>2</sub> emissions performance standards for new HDVs as proved under Regulation 2019/1242.

### ***C. Develop a coherent framework for funding innovation and financing scaling of renewable and decarbonised gas***

#### **i. Sustainable Finance**

Eurogas and its members are fully engaged in ensuring secure, sustainable and competitive supplies to the European market and underline the importance of tools that will help in “Meeting Sustainable Development Goals (SDGs) the Paris Agreement commitments” and of the need for “substantial investments far beyond what the public sector can muster”.

The forthcoming EU Sustainable Finance framework should add clarity and facilitate the effort of all the actors engaged in the energy transition. It should be fully aligned with ongoing efforts, policies and regulatory frameworks already put in place at EU level to strengthen sustainable investments without jeopardising energy security, access and affordability.

Investments in gas technologies and its infrastructure can support the energy transition. Gas remains crucial in facilitating the integration of renewable and decarbonised energy and lowering the overall societal cost of the energy transition. Efforts supporting and facilitating the decarbonisation of the whole gas value chain should therefore be considered as environmentally sustainable investments.

Investments in gas infrastructure remain crucial to abate emissions in Europe, be it the existing one or its further expansion (this includes transmission and distribution systems, gas storages,

LNG terminals, Small Scale LNG solutions and multimodal solutions to expand gas for mobility). In particular, the future sustainable finance framework must ensure that the gas infrastructure can be retrofitted to carry hydrogen and also expanded so that final customers can be connected to this energy source and biomethane production units, often decentralised and in rural areas can be connected to the grid

The forthcoming sustainable finance framework should also support investments into promising technologies to help them reach maturity. Power-to-Gas technologies, as well as blue hydrogen production processes such as Steam Methane Reforming or Methane Pyrolysis, complemented by CCUS technologies, need to be further developed.

Regarding the energy sector and having in mind the need to ensure the necessary stability to the investment climate in support of the transition, we stress that the future Technical Screening Criteria and CO<sub>2</sub> threshold must be coherent with relevant existing EU legislation, which should remain the main reference. Proposing different threshold for the development of power generation activities in the energy legislation, and for sustainable finance criteria, bears the risk of creating a high uncertainty for the investment climate in Europe. This would impair decarbonisation efforts in a wider system perspective.

Retrofitting should be defined as a sustainable economic activity if it improves the environmental footprint of an existing installation, which the technological threshold criteria should take into account. Moreover, increasing shares of variable renewable energy generation from wind and solar will necessitate gas-powered generation to balance the grid. Investments in new capacities can also support the energy transition by providing the necessary flexibility to inject more renewable energy. Similarly, a gas-fired combined-cycle power plant contributes to the climatic and environmental objectives of the taxonomy if it replaces a coal-fired power plant.

### Recommendations

- Ensure full alignment between a future sustainable finance framework and the overarching objectives of ensuring a safe, secure, sustainable and affordable energy supply underpinning the Energy Union.
- Ensure coherence and compatibility between EU legislations, namely the Electricity Market Design thresholds for CRMs and thresholds outlined in the taxonomy report.
- Provide the data and impact assessments underpinning any proposed CO<sub>2</sub> thresholds to ensure that security of supply and cost-efficiency have been adequately assessed.
- Ensure that gas – natural, renewable and decarbonised – is adequately considered and classified as eligible for their GHG reduction potential and the flexibility and security they bring to the energy system in terms of backup and storage potential.
- Ensure a level-playing field between all decarbonisation technology solutions, supported by compulsory life cycle assessment.
- Ensure that the private energy sector can rely on well designed and technology neutral sustainable finance tools to implement the energy transition.
- Guarantee that investments in gas grid infrastructure ready to transport renewable and decarbonised gases are made eligible in the taxonomy as they would support the energy transition and the integration of these gases.
- The TEG and the Platform on the Sustainable Finance to remain engaged in the dialogue with the energy industry as to develop a set of criteria based on meaningful and relevant elements able to orient investment choices in a technology neutral way.

## ii. Support Schemes

In case private finance is not readily available or if investments are too risky because the technology is not yet mature, financing decarbonisation technologies may become a complex issue. Traditionally, support schemes are in the remit of Member States, who choose both the setup of their energy mix and policies to incentivise the energy transition. The freedom to decide on support schemes is put in check by EU State Aid Guidelines.

Eurogas would support the development of an EU framework to harmonise existing national support schemes, thereby reducing market distortions and spurring coordinated development across Europe. To achieve this, well-designed support schemes are required as a pathway to facilitate the achievement of EU objectives. These can give incentives and provide a stable environment for investors. Developing a framework for renewable and decarbonised gas support schemes can also be beneficial to other sectors such as the industrial or the agricultural sector and can contribute to the circular economy through improved waste management practices.

The European framework should consider that renewable and decarbonised gases are generally less developed than renewable electricity, but an important reduction of costs can be achieved with the right market support, similarly to renewable electricity sources. Additionally, their benefits may be much higher than a Levelized Cost of Energy (LCOE) comparison may suggest, as such an approach does not take into account positive externalities, such as the ability of gaseous fuels to provide seasonal flexibility and security of supply along with facilitating additional renewable integration.

The connection of new gas sources to the grid facilitates market access and competition between producers and technologies. Fees for connecting renewable and decarbonised gas plants to the transportation network could be socialised, provided that appropriate rules are in place to limit the impact on tariffs to ensure the competitiveness of the gas system and provided that the market takes over when investments become commercially viable. Support schemes could also serve to promote the upgrading of biogas to grid quality for injection into the gas grid as a way to ensure most efficient use of biomass feedstock and the gas infrastructure, as well as offering support for the retrofitting of existing biogas installations for biomethane upgrading.

### Recommendations

Technologies that have not yet reached commercial maturity will need an appropriate commercial framework and support mechanisms to reach maturity.

- Technology-specific support mechanisms (such as contracts for differences with “tender for premium setting” for large installations) and EU funding mechanisms are necessary to ensure that these technologies (e.g. biomethane, hydrogen and CCS/CCU) are market ready as fast as possible and that their development is not stopped prematurely.
- Eurogas recommends explicit technology specific support, through competitive tenders for larger projects, until new technologies reach maturity and gradual phase out of support as innovation and competition drive a reduction of costs.
- Develop EU guidelines on how the costs for support schemes shall be recovered, such as through taxes, specific or general consumption levies, and ensuring that the indirect beneficiaries (specifically related to sector-coupling) contribute adequately to costs.
- Evaluate whether the balancing rules are fit for purpose, future-proof and support the

development of renewable and decarbonised gas.

- Simplify administrative procedures to access funding/financial support for small size renewable gas installations.
- Provide incentives for the upgrading of biogas to biomethane and its use and injection into the grid.
- Develop a “best practice” dialogue to learn from existing schemes in Member States and Best Available Technologies (BAT) in the sector, both in order to spur the development of renewable and decarbonised gas projects and to help create a level-playing field between Member States.

### **iii. Funding Research, Development and Innovation**

Eurogas welcomes the Horizon Europe proposal and sees a need for continued availability of R&D/R&I funding for the energy transition. Horizon Europe with its proposed budget for climate, energy and mobility of €15 billion provides considerable potential to help develop new technologies.

A new feature in this R&D programme will be the creation of research ‘missions’ as well as partnerships. Examples of missions which could help benefit from the development of renewable and decarbonised gases would be:

- Adaptation to Climate Change, including Societal Transformation
- Carbon-Neutral and Smart Cities
- Soil Health for Sustainable Food

In addition, the EU provides support to the agricultural industry to support rural development under the second pillar of the Common Agricultural Policy. Biogas and biomethane, locally and sustainably produced from non-food and feed crops are the ideal partner for the necessary modernization and decarbonation of European agricultural by promoting modern land use techniques and practices. Eurogas consider that biogas and biomethane production should be supported as they are fully in line with the priorities set out in the Cork 2.0 Declaration on rural development, notably by promoting rural value chains in areas such as clean energy, the emerging bioeconomy, the circular economy.

### **Recommendations**

- Develop cross-sectoral missions which provide support to transversal issues identified in the energy system and their interactions with other sectors.
- Ensuring the re-purposing of available EU funding delegated to EU Member States and regions therein, to fund projects which seek to help the energy transition and which can facilitate the development of renewable and decarbonised gas which can help ensure resilience of the energy system and create positive cross-sectoral spill over.
- Eurogas consider that biogas and biomethane production should be supported through the Common Agricultural Policy, as locally and sustainably produced biogas and biomethane, from non-food and feed crops, contribute to the necessary modernization and decarbonation of European agricultural by promoting modern land-use and waste management techniques and practices.

#### ***D. Provide governments and the public the assurance that methane emissions are being managed responsibly***

During the European Gas Regulatory Forum held in October 2018 in Madrid, the Forum invited GIE and MARCOGAZ to co-lead, with the support of the gas industry, a report on the way industry can contribute to the reduction of methane emissions in the gas sector. The report covers the entire gas value chain (from production to utilization) and all the types of methane emissions were covered. The document reflects the work done on this topic, the ongoing initiatives, projects and recommendations along the gas value chain.

The report underlines the complexity of quantifying methane emissions, with two main approaches “bottom-up” and “top-down” available today and currently in use, showing gaps in macro figures. The report underlines the importance of improving the accuracy of the national inventory reports with collaboration between national authorities and the gas industry needing enhancement to improve the quality of the data. Increasing harmonisation of quantification and reporting methodologies (specific for the gas sector, covering all the different types of methane emissions and the entire gas value chain) is also considered very important. Finally, verification and validation of the methane emissions contributes to increase transparency and reduce data uncertainty. A range of reference standards, methodologies and frameworks related to emission control currently exist (e.g. GHG Protocol, EN 15446, ISO 14064, ISO 14001) to this end.

Taking the above into account, many gas companies have set emission reduction targets for themselves. These targets are an example of the commitments and future efforts of the gas industry to achieve additional methane emissions reductions.

Regarding gas DSOs and their infrastructure, members of Eurogas, CEDEC and Geode, have always been committed to limiting methane emissions in their networks and will continue to work on and implement best practices, notably in Leak Detection and Repair (LDAR) at DSO level. Through the large investments of the past decades into the renovation of the grids and plants, it was possible to reduce the number of leaks drastically. In order to further reinforce this commitment going forward, the associations encourage their members to explore the possibility of conducting measurement campaigns. The basis for this exercise could be the application of a sustainable and reliable methodology across Member States where a sample of DSOs would each undertake measurements in a set of statistically relevant types of terrain. The measurements would, as far as is feasible, be undertaken with the same instruments to ensure consistency.

#### **Recommendations**

Provide governments and the public the assurance that industry member methane emissions are being managed responsibly through:

- Transparent, harmonised and periodical public reporting of all methane emission sources
- Clarity on the uncertainties of quantification methods (top-down/bottom-up) and allow for improvements
- Improved performance by supporting industry knowledge and best practise sharing in the field of sensing technologies and mitigating practises.

## **2. Infrastructure – Preserve the strategic role of gas infrastructure and support its evolution to accommodate growing shares of renewable and decarbonised gas**

The decarbonisation of the energy system cannot be tackled by the electricity sector on its own and the energy transition may become increasingly challenging and costly due to the growing pressure on the power system due to development of intermittent resources and new usage (heating and mobility) and to climate change impacts on temperature extremes, rainfall and weather patterns. Also, in some Member States, the expansion of the electricity grid faces growing resistance in society. The well-developed gas infrastructure can offset the missing expansion of the electricity grid.

Gas and gas infrastructure have long been the reliable backbone of the European energy system, efficiently providing bulk resource, flexibility, and resilience. Gas is easily stored, providing flexible, seasonal weekly, daily and hourly resources to meet peak heating demand and making it inherently demand responsive.

Gas enhances customer choice and energy system resilience, whereas having an over reliance on electrification as the basis of the future energy system would mean dependence on one infrastructure, which is unable to handle peak demand and will continue to be unable to do so for the foreseeable future given the absence of viable technological solutions. Moreover, it would trigger the risk of an electricity lock in effect with enormous costs for the EU economy and citizens.

Integration of the gas and electricity systems allows the flexibility and potential of gas infrastructure to deliver benefits to the electricity system, the EU industrial sector, EU agriculture and transport, and heating.

### ***A. Pursue a holistic approach to markets, regulation and infrastructure planning for gas and electricity, to ensure efficient choices, operation and modernisation***

#### ***i. Sector coupling***

The energy transition will require the interconnection of the electricity and gas systems – also known as sector coupling. Sector coupling is already a reality today with Gas-to-Power offering dispatchable capacity to the electricity system. The role of Gas-to-Power, in particular through Combined Cycle Gas Turbines will grow in the future through their ability to cover production gaps from intermittent renewable electricity. Sector coupling will also enable, among others, the transformation of renewable electricity to renewable gases, through Power-to-Gas technologies, such as electrolysis and methanation and ensure their long-term storability. It ensures security of supply, provides for flexibility and improves the resilience of an energy system that will increasingly be characterised by growing shares of intermittent renewable energy. Delivering the potential of gas requires a level playing field to be established with other decarbonisation technologies.

Eurogas considers that effective sector coupling requires that the intermittency and the contribution to system safety and schedulable flexibility should be considered and rewarded when comparing different renewable energies. Policies and economic evaluations should therefore integrate the costs induced on the system by each renewable energy source. LCOE does not represent an objective metric for comparison.

To providing the right economic signals and reduce the overall cost to the system, energy system costs (gas, electricity) should be allocated to the part of the system benefiting from it. The analysis should be based on an assessment of costs incurred and originated benefits, such as avoided curtailment costs, flexibility and security of supply.

Future regulation should be neutral between mature technologies and support efficient outcomes and investments. Network operators should be incentivized to operate their grids efficiently, optimize the use of infrastructure (e.g. through digitalization) and to make those necessary investments to accommodate new gas sources (e.g. blending equipment, reconversion of pipelines).

To ensure a level playing field in the decision-making process of end-users' investment choices, electricity and gas end-user tariffs should be more cost reflective. To achieve this cost-reflectiveness, the structure of the tariffs should reveal more efficiently the costs generated by different consumption patterns and technology choices. For instance, when choosing between gas and power heating solutions seasonal consumption that is the most demanding in terms of infrastructure investments should be considered and appropriate price signals should be given to customers.

Furthermore, transparency should be given on these end-user tariffs expected evolution, especially when massive infrastructure investments are planned. This could be achieved by ensuring that cost reflective price signals are transmitted to end-users, including current and expected costs on energy systems induced by their choices.

#### **Recommendations**

- The comparison of renewable energies should consider their intermittency and contribution to system safety and schedulable flexibility.
- System costs should be allocated to the part of the energy system that benefit.
- Regulation for mature technologies should be technology neutral and incentivise network operators to optimise the use of infrastructure, for instance through digitalisation.
- Electricity and gas end-user tariffs should be more cost reflective of the cost generated by different consumption patterns and chosen technologies (e.g. gas condensing boilers and electric heat pumps).

#### **ii. Sector integration**

Sector integration refers to the wider integration of other economic sectors – industry, mobility, heating and cooling, agriculture – in the energy system, for instance by using renewable and decarbonised gas in CHP generation, for mobility and in heating. The success of the energy transition will crucial depend on the optimisation of this process to ensuring that sectors adopt the most cost-effective solutions to achieve decarbonisation.

Moreover, the scope of the European assessment for lifecycle GHG emissions and GHG avoidance cost should be widen and results should be published. Reduction of EU GHG emissions can be fostered by creating greater transparency for policymakers and consumers on the sources of emissions by means of full life-cycle emissions analysis. This assessment could calculate and publish data on CO<sub>2</sub> and other GHG avoidance and abatement costs, for example, based on life-cycle emissions calculations for well-to-wheel emissions in different mobility technologies; for biogas/biomethane in terms of reducing agricultural methane emissions; and for different energy storage technologies, including power-to-gas and batteries.

The results of the assessment and the publication could be for use by policymakers and could be established by the EC under the European Environment Agency and JRC.

### Recommendations

- Transparency should be given on these end-user tariffs expected evolution, especially when massive infrastructure investments are planned.
- The scope of the European assessment for lifecycle GHG emissions and GHG avoidance cost should be widened.

### iii. Joint Ten-Year Network Development Plans for Gas and Electricity

Sector coupling and sector integration will not happen by itself. In order to realise their full potential will require joint infrastructure planning in the Ten-Year Network Development Plans (TYNDPs), at both European and national levels. Based on sound principles and a transparent process, the aim is to create a competitive level playing field across sectors and enable the delivery of cost-efficient outcomes for consumers.

Joint infrastructure planning will help to manage the costs of the energy transition by maximising the opportunity for capitalising on and converting or retrofitting existing assets for the transportation of renewable and decarbonised gas. It will ultimately result in lower costs and investment needs, avoid the issue of public resistance to new and unnecessary infrastructure projects and avoid stranded assets, both centralised and distributed.

Joint TYNDPs should reinforce coordination for infrastructure planning between the electricity and gas sectors at EU and national level to ensure that sector coupling is leveraged to its full potential and that all solutions to facilitate the energy transition are considered in a technology neutral way. A coordinated approach should aim to identify the most cost-efficient solution to fill the infrastructure gap identified. Cost-effectiveness should be based on a deeply reviewed and comprehensive set of assumptions that take into account various factors such as security of supply and extreme climatic events.

### Recommendations

Joint ENTSOE/ENTSOE scenarios should:

- Be based on the most severe climatic events and not on standardised climatic years in order to identify the power system costs and backup capacity that will be needed due to increased electrification.
- Identify the main bottlenecks in the energy network and which investments would be optimal to support EU targets. For example, whether reinforcing the power grid would be more cost-efficient than installing a power-to-gas unit to remove congestion.
- Include physical indicators on top of monetary indicators in the results of power TYNDPs to assess the risk of curtailment.
- Compare consumer investment needs in the scenario of increased electrification with the scenario of increased use of renewable and decarbonised gas in the relevant markets.
- In the power modelling, generation is automatically adjusted and optimised to answer demand; a sensitivity on what happens if generation investment does not occur should be added.
- Focus on the development, scaling and integration of both renewable and decarbonised gas along with technologies such as Power-to-Gas, CHP, CCS/U and fuel

cells.

- Align national grid development plans – which are the base for the national transition scenario – between electricity and gas.
- The inclusion of DSOs in the process on national and European level should be mandatory not only as a regular stakeholder, as their role is evolving due to the decentralisation of electricity and gas production.
- Other system users, such as Energy Intensive Industries (EII) and the agricultural sector should also be directly and transparently involved.
- The reference grids have to be based on the most recent status of the high voltage lines and not solely on plans brought into the federal or local permitting process.

#### **iv. Establish a single-DSO entity for gas to improving network planning and cooperation**

The Commission is expected to propose the creation of a DSO entity. There are two possible structures. There could be two separate entities for gas and for electricity, or two distinct work streams with separate boards, both housed in the same entity.

Eurogas supports a separate entity for gas DSOs to ensure the adequate representation of gas DSOs and their interests and to ensure that the specificities of the gas sector can be addressed, rather than the same work areas being defined for both electricity and gas. In case this option proves unfeasible, Eurogas could accept, as a compromise, having a single entity with two distinct work streams and clear arrangements that ensure the independence of each work stream.

Nevertheless, Eurogas also considers it very important that both entities work closely together on all cross-sectoral topics. This principle should be defined in the legislation. The responsibilities of the DSO entity need to be further analysed, specifically the fields of activity where the rules become binding.

#### **Recommendations**

- Create an EU DSO entity for gas to allow DSOs to adequately define network codes and rules which pertain to their activities.
- Ensure that a structured cooperation is set up between the DSO entity for electricity and the DSO entity for gas.
- Create a mandatory requirement for DSOs to participate in the TYNDP exercise at EU and national level and share the necessary data for adequate system planning.

### **B. Develop a regulatory framework that incentivises investment to accommodate new CCS and CCU value chains**

CCS is a proven technology necessary to achieve climate neutrality in Europe in a cost-efficient manner, and to enable negative emissions. All credible scenario modelling shows that CCS will be essential to meeting the targets set by the Paris Agreement. CCS technology is also critical for deployment of hydrogen, as natural gas can be reformed to hydrogen and the remaining CO<sub>2</sub> can be captured and stored. Decarbonised gases with CCS are crucial, along with renewable gases, to supporting decarbonisation of EU heating, transport, industry and power generation sectors.

CCS and CCU are mutually supportive solutions, since both require access to capture facilities and to gas infrastructure and transportation services. Europe is well placed to benefit from CCS

and CCU due to its extensive pipeline infrastructure which can be used to transport CO<sub>2</sub>, hydrogen and synthetic methane, and other renewable and decarbonised gases. Europe also has extensive geological CO<sub>2</sub> storage capacity and subsea expertise, with countries such as Norway and the UK willing to enable shared access to their offshore storage facilities for CO<sub>2</sub> from EU industry.

Appropriate and timely policies coupled with regulatory and financial support are needed for CCS and CCU, as in many cases infrastructure must be put in place in advance of a mature market for decarbonised products and services. Support for CO<sub>2</sub> transportation and storage infrastructure will in particular be important, to help de-risk the early development of the CCS and CCU value chains. Large source emission clusters in Europe provide good opportunities to create economies of scale, by establishing shared CO<sub>2</sub> transportation infrastructure with third party access and efficient use of this infrastructure by multiple parties.

Eurogas supports the findings of the IOGP report on ‘The potential for CCS and CCU in Europe’.

#### **Recommendations**

- Enable gas infrastructure or other companies, where Member States so decide, to transport CO<sub>2</sub> as a regulated activity, including in an offshore environment towards the storage, overseen by NRAs with appropriate mandates.
- Encourage Member States and other parties to the London Protocol to prioritise ratification of the 2009 amendment of Article 6, which allows for the cross-border transport of CO<sub>2</sub> for the purpose of offshore storage and support proposed temporary solutions including preliminary entry into force among the current ratifying parties.

### ***C. Develop adequate blending and technical rules to promote the rollout of new gases***

It is crucial to ensure that the injection of different gases does not undermine the existing interoperability of the EU gas infrastructure which is central for the integrity of the internal market. The injection of biomethane with natural gas is not an issue in terms of gas quality per se as the molecules are the same. Standards ensure that gas quality remains appropriate for end-users. For the blending of methane with hydrogen, or for pure hydrogen grids technical adaptations might be required, mainly in transmission pipelines.

The first step should therefore be to assess the maximum blending level based on the possible impact of hydrogen intake on grid materials and appliances connected to the grid. This level could then be considered as a starting point, especially for the cross-border-pipelines.

Higher levels in certain parts of the TSO or DSO grids might be possible according to the different materials making up the grid. Polyethylene or PVC pipelines, widely used at distribution level, for instance, would be able to accommodate larger amounts of hydrogen. In this case, a close cooperation would be required between the DSO and TSO – similar to the L-Gas/H-Gas conversion planning – to optimize the gas being fed in.

In certain areas H<sub>2</sub> could be methanated and transformed into synthetic methane, for example with local CO<sub>2</sub> from biogas plants, to ease the transition towards a decarbonized future and to keep parts of the grid on more narrow gas quality ranges for prolonged time periods. The most cost-effective solution, depending on local conditions, would ensure minimal impacts on tariffs for final consumers. In addition, gas quality fluctuations in the grid outside the allowed range

could be adjusted through filters separating hydrogen and methane molecules at the exit for example.

All options would need to take into account technical feasibility in terms of end users and appliances. Over time, the latter will be replaced in any case (lifetime of 15-20 years) and new appliances that can take higher levels of hydrogen up to 100% could substitute the existing ones. These appliances should be able to operate not only in a wide range of the Wobbe Index but have the possibility – e.g. through an exchange of the burner unit - to be operated also at 100 % of H<sub>2</sub>. The gas quality according to relevant European and national standards should be ensured for final users by TSOs and DSOs. TSOs and DSOs will need to inform their sensitive consumers in case of unexpected changes outside any critical base operating ranges within the standards. This will require timely information exchange and could be complemented by the installation of in-grid sensors to map the evolutions of quality across the grids and to electronically transmit relevant data to applications, with the possibility in the future to provide additional information to installers and smart meters.

#### Recommendations

- The current gas infrastructure should accommodate new forms of gas including renewable gas and hydrogen. Adequate solutions should be identified to ensure that the existing interoperability of the EU gas infrastructure is maintained, which is crucial for the integrity of the internal market.
- Assess the maximum hydrogen blending level based on the existing grid materials and appliances connected to the grid and consider it as a starting point for a blending threshold, especially for cross-border-pipelines.
- Allow for local and specific solutions to cater for regional specificities, without undue impact on the cross-border exchanges of gas.
- Ensure proper coordination between TSOs and DSOs and enable the timely exchange of information between system users.

### **3. Market design – Ensure a well-functioning, competitive and integrated internal energy market that creates value and security of supply and promotes the integration and trading of renewable and decarbonised gases**

The European gas sector represents an indispensable part of the energy transition towards a carbon neutral economy by 2050 and the long-term future of a successful and competitive European Union.

Europe must maintain its competitive position during the energy transition and protect its workforces in both industry and manufacturing. Millions of jobs across Europe, rely on secure and competitive energy supply and prices. The existing European gas infrastructure, including its 2.2 million kilometres of gas pipelines, storage and LNG facilities ensure secure delivery to all sectors of the economy, and provide the flexibility needed to meet daily, weekly, seasonal variations and peak energy demand. It ensures access to affordable, secure and reliable energy for both consumers and industry, while enabling the mass deployment and storage of renewable and decarbonised energy.

EU policies must aim to ensure the continued stability and well-functioning of the internal energy market in order to safeguard the vital role of gas in supporting a competitive European

industry and providing affordable energy to consumer, while enabling the transitioning to an increasing share of renewable and decarbonised gases.

***A. Define the roles and responsibilities of regulated and market actors to allow for the timely and efficient development of new markets, technologies and activities***

Renewable and decarbonised gases are central to the achievement of the EU climate targets. Among those, today P2G is a key technology for effective sector coupling and sector integration as hydrogen or methanated synthetic gas can be used across the electricity, industrial, heating and transport sectors. The current regulatory framework is however not conducive to the development of P2G as it fails to create a level-playing field between different energy vectors.

When it comes to the development of new markets, such as P2G, Eurogas underlines that emphasis should first and foremost be put on creating the policy and regulatory framework which supports the commercial development of new technologies to produce renewable and decarbonised gases. This may require explicit technology specific support, through competitive tenders for larger projects, until new technologies reach maturity and gradual phase out of support as innovation and competition drive a reduction of costs. The creation of a level-playing field may also require the removal of market barriers, such as undue charges, levies and taxes applied to energy transformations (P2G2M, P2G2P and P2G).

Eurogas believes that effective separation of networks from activities of production and supply is a fundamental pillar for achieving the objective of a well-functioning internal gas market and should be maintained when it comes to the development of new markets. DSOs and TSOs play a crucial role in facilitating the development of a competitive market. Unbundling rules ensure that network operators act as neutral market facilitators in undertaking their core functions. As such, TSOs and DSOs as regulated entities should not be involved in competitive activities with a commercial interest that are different from the regulated missions they have been entrusted with.

A limited role could be envisaged for other interested parties for a limited period of time, including network operators, to own and develop these assets, only if the framework to support the commercial deployment of new technologies is not delivering or the market is not reacting and developing autonomously following an open and transparent tendering procedure. This may be the case when there is not enough appetite to kickstart certain activities, such as power-to-gas installations, CCS systems or gas fuelling stations.

**Recommendations**

- When it comes to the development of new markets, activities and technologies, such as P2G, Eurogas underlines that emphasis should first and foremost be put on creating the policy and regulatory framework which supports the commercial development of new technologies to produce renewable and decarbonised gases.
- Eurogas underlines that the effective separation of networks from activities of production and supply is a fundamental pillar for achieving the objective of a well-functioning internal gas market and should be maintained when it comes to the development of new markets, activities and technologies.
- If the framework to support the commercial deployment of new technologies is not delivering or the market is not reacting and developing autonomously following an

open and transparent tendering procedure, a role could be envisaged for other interested parties, including network operators in the development, operation and ownership of these assets for a limited period, until a market test reveals market uptake, with potential new revenue streams linked to this role.

- This time-limited role for network operators should be subject to appropriate regulatory oversight, to avoid any detrimental impact on existing and future competition, with clear principles/criteria to determine the degree of contestability in an agreed set of activities.
- In case TSOs or DSOs develop P2G facilities, these should operate under Third Party Access (TPA) rules and network operators should not own the electrons or the molecules.
- A regular market test should monitor whether the market situation is evolving and exit conditions should be clearly expressed and defined in advance.

## ***B. Extend the regulatory framework for natural gas to cover all gases, renewable and decarbonised***

The electricity market design has been developed to integrate and promote the trading of electricity produced through different technologies, including renewables. Similarly, the gas market regulatory framework should be extended to different forms of gas.

Eurogas has consistently supported ACER's work on the Gas Target Model and its overarching objective to create an efficient, secure and competitive gas market. Eurogas believes that integration of the electricity and gas sectors will require some degree of convergence in the approach taken for both infrastructure development and market design rules.

As sectors become more and more integrated from an infrastructure point of view and joint infrastructure planning is adopted, sector coupling may require reviewing both the gas and the power market rules with a view to identify possible areas where greater convergence or consistency of rules may be needed. For example, to the extent that power-to-gas can offer balancing system stability services to the power sectors, the power market design and the gas market design should allow for power-to-gas to compete against other flexibility services in the power balancing or ancillary services market. Equally, to the extent that power-to-gas can offer balancing and security of supply services on the gas market, it should be able to compete with other gas flexibility sources taking into consideration the characteristics (e.g. duration) of the different flexibility services (e.g. withdrawal from gas storage or gas interruptibility services).

### **Recommendation**

- Sector coupling will require reviewing both the gas and the power market rules with a view to identify possible areas where greater convergence or consistency of rules may be needed.

## ***C. Further improve the liquidity and efficiency of the EU gas market***

### ***i. The way forward on commodity and capacity release***

Without prejudice to comments made by Eurogas on previous scenarios and positioning on the outlined reform options, we would like to recognise and express our views on the new reform

scenario which is proposed in the final conclusions of the Quo Vadis study and, according to the study, could generate welfare benefit in Europe: the capacity and commodity release option.

On commodity and capacity release, Eurogas notes that commodity and capacity issues are different and should be treated separately. Eurogas does not support an EU wide commodity release programme. European hubs are at different stages of development: Northwest Europe is liquid while some hubs in Southern Europe have been consistently improving over the past few years. Moreover, some markets are well connected to the broader LNG market through LNG terminals. Introducing a commodity release programme in these markets would be unnecessary and counterproductive. However, Eurogas has raised concern with respect to slow progress in Eastern European markets and has consistently encouraged further progress on the implementation of the Third Package and Network Codes. At local level only and for a limited period of time, Eurogas could support ad-hoc measures such as mandatory commodity release programs (on dominant market players) where there are proven structural constraints to competition and liquidity in those specific markets.

With respect to the proposal to increase the share of capacity allocated on a short-term basis:

- Eurogas considers that existing capacity and incremental capacity should be treated differently, as it is envisaged in the current regulatory framework.
- Eurogas notes that throughout Europe, capacity is to some extent still linked to old long-term capacity contracts which do not match the move towards liquid short-term commodity markets and may cause access issues in less developed markets. Eurogas has consistently supported a regulatory framework that enables shippers to build a diversified portfolio of capacity contracts of different durations which suit companies' commercial strategies and evolving market conditions.
- To create a level playing field and ensure long-term contestability, Eurogas would support a higher share of capacity (existing capacity and bookings) being allocated on a short-term basis. Taking into account the impact on the market, this could be achieved, for example, by first allowing shippers to voluntarily release existing long-term bookings. This could avoid reverting to more intrusive interventions.
- The impact of the capacity release on the market varies and depends on whether the capacity released would be booked again. Therefore, a threshold could be considered for possible mitigation to take account of the potential impact on tariffs and network users.
- Eurogas would welcome options increasing the amount of capacity allocated on a short-term basis provided that this does not diminish shippers' ability to deliver on existing long-term commodity contracts, in line with EU security of supply objectives.
- With respect to spiralling unitary tariffs, to the extent this may become a problem, National Regulatory Authorities (NRAs) should be encouraged to consider appropriate measures, including socialisation and compensation outside of network tariffs, to avoid spiralling tariffs becoming a barrier to cross-border trade, thus negating the success of the single energy market.

### Recommendations

- Explore options to increase the level of capacity made available to the market on a short-term basis.

- Investigate the impact of such options by taking into account our views on treatment of stranded infrastructure, including the need to avoid cross subsidies across TSOs.

## ii. Phase-out of price regulation

In order to maintain a level-playing field, consistency across electricity and gas market design legislation is important. Price regulation in gas retail markets still exists in many countries or is even being reintroduced (for example in the UK). Gas and electricity regulated prices should be phased out as quickly as possible, ideally at the same time to avoid that the market will be distorted. Mechanisms such as social tariffs should be maintained only where duly justified.

### Recommendations

- Regulated gas and electricity prices should be phased out as quick as possible, ideally at the same time to avoid market distortions.
- Mechanisms such as social tariffs should be maintained only where duly justified.

## iii. Gas storage infrastructure

Eurogas considers that storage has two functions: it is a security of supply instrument and a flexibility tool. The role of storage is different in different markets, depending on the availability of other sources of flexibility and supply and on the variability of end-user demand over time. Therefore, Eurogas believes that any specific storage measure would need to be tailored to the local market, avoiding one-size-fits-all solutions.

Eurogas believes that storage should participate in the market and be accessible on a commercial basis to enable it to compete on a level playing field with other forms of flexibility, such as LNG and interconnectors. In this respect, differences in access regimes across Europe (negotiated storage vs regulated storage) are not an issue per se. However, commercial storage provides an incentive to innovate, experiment with new products and negotiate solutions with customers. In the case of regulated storage regimes, it is important to ensure that regulation does not constrain product offering, nor impose barriers to innovation. For example, excessive standardisation of products can be a limiting factor and regulated prices may lead to artificially low levels of utilisation.

With respect to security of supply, Eurogas has consistently expressed a preference for market-based, non-distortive mechanisms as opposed to securing utilisation through regulatory obligations on shippers. For example, in the case of regulated assets, which are needed for security of supply but have low utilisation rates, Eurogas could support, at local level, removing obligations on market participants, auctioning capacity to maximise commercial utilisation and potentially integrate that with a cost recovery mechanism.

### Recommendations

- Eurogas has a clear preference for a market-based pricing regime for gas storage services offered to the market in order to achieve efficient gas storage use and a competitive flexibility market, ensuring security of supply.
- Eurogas has a preference for market-based, non-distortive mechanisms as opposed to securing utilisation through regulatory obligations on shippers.
- Eurogas recommends solving local regulatory barriers such as unjustified differences in discounts, inconsistent tariff levels, that put storage assets in one country at a disadvantage in comparison to storage assets in neighbouring countries.

- Eurogas considers essential to assess and tackle local regulatory constraints which make it difficult for storage facilities to compete with other sources of flexibility in the market.

#### **iv. Gas transmission infrastructure**

Eurogas underlines the essential role of infrastructure in meeting EU climate targets. The European Commission's long-term strategy recognises that existing gas infrastructure has a role to play in 2050. The risk of gas infrastructure becoming stranded is expected to be limited to isolated cases, whilst overall utilisation rates will remain high. As the grid will need to integrate increasing levels of renewable and decarbonised gases, Eurogas would welcome policy clarity on their future role and a forward-looking regulatory approach to infrastructure.

Eurogas considers an integrated approach to gas and power network planning as essential to ensuring existing assets are being used to their full potential. Recognising the value of new infrastructures developed on a merchant basis (i.e. do not restrict exemption processes when these are justified), consistent with the concern to avoid stranded assets.

Repurposing infrastructure should be preferred over decommissioning. However, should the decision to decommission infrastructure arise in isolated cases, it should follow the same type of methodology as commissioning, with cost-based economic decisions, and taking into account cross border impact.

Eurogas would encourage the development of options to avoid a vicious circle of spiralling tariffs to deal with possible stranded transmission infrastructure (i.e. low utilisation triggering higher tariffs which further discourage utilisation), as well as with the need to maintain the attractiveness of the EU gas market, competitiveness of gas as a fuel, supply diversification and security of supply.

Decommissioning or mothballing of stranded infrastructure should be used only as a last resort. It should be coordinated and allowed strictly when it is not critical for security of supply. Stranded assets should be explicitly compensated outside network tariffs to avoid spiralling tariffs. And accelerated depreciation of TSO infrastructure should be avoided.

#### **Recommendations**

- Favour repurposing infrastructure to carry different gases, such as hydrogen or CO<sub>2</sub>.
- New and existing flexibility services and other services, such as bunkering, which could be offered on a commercial basis, should be provided by the market and facilitated by transmission infrastructure operators.

#### **v. Review of governance for implementation, enforcement and assessment of competition**

Eurogas recalls the suggestion of reviewing governance to support the removal of national regulatory barriers to market development and instances of non-compliance. The review of the Gas Directive and Regulation offers an opportunity for this and to improve the current process for implementation and enforcement of EU rules.

#### **Recommendations**

- Eurogas suggests a review of the Commission's enforcement powers to ensure that

the Commission is able to address instances of consistent lack of progress in implementing EU rules more effectively and quickly.

- A review of ACER powers to monitor and assess the level of competition, and actively support the implementation of EU rules (e.g. Members States should be obliged to follow structured processes supported by regional roadmaps). ACER has currently very limited ability to go beyond the reporting of formal compliance and to play a role in implementation processes.

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