

April 2022

UFE's reply to the public consultation of the European Commission on the Gas Package

UFE, the association representing the French power sector, welcomes the Commission's intention to revise the EU Gas Regulation and Directive to align them with the decarbonisation agenda. To achieve this objective, the EU must phase out fossil fuels. While decarbonisation of the EU economy will first and foremost be driven by direct electrification, renewable and low-carbon gases are needed and will complement it, in sectors where electric solutions are neither technically feasible nor cost-efficient.

1. Definition and certification of renewable and low-carbon gases

UFE welcomes the introduction of definitions for a broad range of renewable and low-carbon gases, including a reference to a greenhouse gas (GHG) emission threshold, under art.2 of the Gas Directive. However, we note discrepancies in how terms are defined. Furthermore, some terms are being used throughout the proposal without being defined. For example, the proposal does not provide a definition for 'hydrogen'. The definition of 'natural gas' includes "*other types of gas, that can technically and safely be injected into, and transported through, the natural gas system*" which encompasses hydrogen, and more broadly renewable and/or synthetic gases. This creates confusion and could result in diverse transpositions across Member States.

- **UFE recommends referring systematically to the chemical composition (e.g. CH₄, H₂, NH₃, CH₃OH...), the origin (e.g. renewable, low-carbon) and the carbon content** in the definitions. Defining gases based on their possible injection in the natural gas system must be avoided, as all synthetic fuels will not necessarily be transported in the gas infrastructure.
- **A proper definition of hydrogen must be included**, to clearly differentiate between dihydrogen and methane.

UFE recalls that **renewable and low-carbon sources equally contribute to the decarbonisation of hydrogen production**. Therefore:

- **Low-carbon hydrogen should be considered as a sound long-term solution**, instead of a

transitional option as depicted in recital (9) of the Gas Directive.

- **UFE especially supports the introduction of a definition for low-carbon hydrogen** in the Gas Directive. The proposed emission reduction criterion of 70% is consistent with **the climate delegated act of the taxonomy regulation** (annex II on adaptation).
- Art.2(10) of the Gas Directive should **specify that this 70% GHG emission reduction is measured against a fossil fuel benchmark.**

According to art.8(5) of the Gas Directive, the methodology for assessing GHG emissions savings from low-carbon fuels (including hydrogen) shall be defined in a delegated act, to be adopted by the Commission before 31 December 2024. The proposed timeline is inappropriate and will lead to significant uncertainties for project developers, hampering investments in low-carbon hydrogen production when it is most needed.

- **A faster definition of the certification framework is needed to ensure the EU reaches its ambitious 2030 target.** This could be done either by introducing the methodology into the Directive itself, or by amending art.8(5) to set a closer deadline for the adoption of the delegated act by the Commission.
- **For low-carbon hydrogen produced from electrolysis, UFE supports a methodology based on the hourly average carbon content of the national electricity mix** of the country where the electrolyser is located. This could already be enshrined in the Directive.

2. Governance and network planning

a. A distinct separation from the EU DSO Entity

Art.36, 37 and 38 of the Gas Regulation require the enlargement of the EU DSO Entity to natural gas DSOs and list additional tasks to be fulfilled by the EU DSO Entity, in relation with the natural gas network.

The EU DSO Entity was formally requested to increase efficiencies in the electricity distribution networks¹. Its enlargement to gas DSOs will not help rationalise the tasks to be fulfilled: as different rules apply to the electricity and gas sectors, separate workstreams would be required internally (e.g. for the elaboration of the dedicated network codes). In addition, **the governance of such a mixed EU DSO Entity gathering both electricity and natural gas DSOs would be too complex**, and would put at risk its efficient functioning. It could also endanger the representation balance between electricity or gas-only DSOs on the one hand, and DSOs operating both types of networks on the other hand.

- **UFE recommends setting a separate entity dedicated to natural gas DSOs**, with the same duties and responsibilities as the EU DSO Entity, applied to the gas sector. Cooperation between both entities could be ensured following the model of ENTSO-E and ENTSOG.

¹ Recital 60 of Regulation (EU) 2019/943.

b. Integrated network planning

UFE welcomes the requirement from art.51(2) of the Gas Directive for ten-year network development plans (TYNDPs) to be based on a **joint scenario framework** developed by the relevant infrastructure operators, including electricity and gas DSOs, **as further coordination is needed to ensure consistency in network planning**. The possibility to develop subnational joint scenario frameworks (NUTS2) should also be considered, as DSOs have the required experience and knowledge to bring more granularity to the plans.

According to art.51(3) of the Gas Directive, *'the transmission system operator shall assess how to address, where possible, a need across electricity and gases systems including information on the optimal location and size of energy storage and power to gas assets'*.

- Coordination in network planning between gas and electricity TSOs is desirable, but **the operators shall remain responsible for evaluating the needs in their respective sectors**: gas TSOs for the gas system and electricity TSOs for the electricity system. In this regard, **both types of TSOs shall be equally responsible for evaluating the optimal location and size of energy storage and power to gas assets**.

Art.51(3) of the Gas Directive requires gas TSOs to take into account the energy efficiency first principle when elaborating their TYNDPs.

- To ensure full compatibility with the EU's decarbonisation objective, **UFE recommends that actions guided by the energy efficiency first principle also prove to lead to a clear and efficient reduction of GHG emissions**.
- **Other criteria, such as cost-efficiency, should also be considered** in network planning alongside the energy efficiency first principle.

c. Energy sector integration

The Gas Package provides gas TSOs with a large range of competences in terms of energy sector integration.

- Sector integration is a broad concept that does not only encompass already-existing interactions between gas and electricity. Considering the interactions of the electricity sector with hydrogen, district heating and cooling, the transport sector, and digitalisation, **a more balanced approach in terms of competences between electricity and gas system operators on matters of sector integration is needed**.
- **UFE recalls that sector integration should rely on a techno-economic optimisation**, and should only be promoted if it provides added-value in terms of resilience, security of supply and decarbonisation.

3. Deployment of a hydrogen market and associated network infrastructure

UFE supports the Commission's decision to use existing rules applying to the natural gas market as a basis for the development of the hydrogen market, while taking into account the need for flexibility in the build-up phase.

- **Considering vertical unbundling, UFE notes that the ITO model, applied to electricity and gas, has proven to work well** (as shown by ACER's reports) and that there is no reason to question it in this package.

The deployment of renewable and low-carbon hydrogen must in priority be dedicated to replacing current uses of emitting hydrogen, in particular in **industrial processes**. When available, hydrogen will also be needed as a complement to direct electrification in transport, for **heavy transport segments** (some long-haul trucks, maritime transport, aviation).

- **Therefore, local production, especially via the location of electrolyzers close to existing centres of hydrogen demand (e.g. hard-to-abate industry), should be prioritised.**
- Then, at the right moment, **the connection of industrial clusters together at European level could be considered, as an opportunity to reinforce the EU's energy independence and develop the EU internal market.** Regarding hydrogen imports, the EU dependency on third countries shall be carefully monitored.

The deployment of a wider hydrogen network, including the repurposing of existing natural gas pipelines and creation of a dedicated hydrogen network, that might be connected to third countries, must be carefully assessed to avoid stranded assets or lock-in effects.

- **Each investment decision in the hydrogen network shall be based on a cost-benefit analysis,** in priority for hard-to-abate sectors, notably taking into account the forecasted hydrogen demand and assessing alternative options.

4. Security of gas supply

UFE took note of the revised proposal of the European Commission, published on 23rd March 2022, to amend Regulation (EU) 2017/1938, following the escalation of the armed conflict in Ukraine.

The Commission sets a filling target at 80% of the capacity of all storage facilities in each Member State, to be met by 1st November 2022, with intermediary targets for August, September and October. For the following years, the filling target is increased to 90% of the capacity of all storage facilities, with intermediary targets set for February, May, July and September.

- **UFE supports the proposed targets for the year 2022, which are reasonable and sufficient to ensure the security of gas supply.** UFE stresses that priority should be given to the next winter/year, and that the necessity to set targets and monitor them shall be regularly assessed.

- The Regulation should define the criteria upon which the Commission would be entitled to adopt a delegated act to adjust the filling target and trajectory, as of 2023.

However, more flexibility is needed with regard to the compliance with the filling trajectory. The Commission requires the competent authorities to take action when the filling level deviates from more than two percentage points from the planned filling trajectory.

- This requirement is excessively strict. **UFE recommends loosening it to five percentage points to account for possible technical issues and climatic variations when monitoring the filling trajectory.**

As a more general and fundamental remark, UFE highlights that the current security of supply issue shows the **urgent need to move away from fossil fuels**, beyond the diversification of gas supply.

- The decarbonisation of the European electricity mix and electrification of the European economy (especially in the heating sector) are absolutely necessary from a climate perspective, and will reinforce the EU's energy independence.