

## EFET reaction to the Commission's Communications on an EU Strategy for Energy System Integration and a Hydrogen Strategy for a Climate-Neutral Europe

09 July 2020

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the European Commission's Communications on an EU Strategy for Energy System Integration ("ESI Strategy") and a Hydrogen Strategy for a Climate-Neutral Europe ("EU Hydrogen Strategy").

### Europe's IEM and the EU's carbon market key to enable efficient energy system integration and cost-effective decarbonisation of the EU economy

We support the cross-sectoral and cross-commodity approach to decarbonisation that the Commission seeks to develop. We share the Commission's view, reflected in both strategies, that **Europe's well-functioning and efficient energy markets together with a strengthened and expanded EU ETS are crucial to drive cost-effective decarbonisation of the sector and of the EU economy**. We also recognise that reforming the EU ETS will also be required in order to allow it to accommodate the widest range of technologies and energy carriers, recognising their climate value, and to enable trading of a universal product on a common basis.

Energy system integration in Europe must rest on a **continuation and strengthening of the European Internal Energy Market** ("IEM"). And if Europe is to rely on hydrogen in the future as an integral element of the continent's energy supply, then **a market in hydrogen must be enabled within the IEM**. Especially important is the preservation of competition and liquidity at the wholesale level of energy commodity markets and in energy derivative contract markets. At the same time, a credible, strengthened and expanded EU ETS constitutes a crucial tool for encouraging uptake of least cost emission reduction technologies and solutions.

To the extent that the supply of EUAs does not tighten compared with demand or the demand for them is not spread into further end uses of hydrocarbon fuels, the ETS may have to be supplemented by additional carbon pricing measures. Close cooperation between DG ENER and DG CLIMA is therefore necessary going forward to ensure **coherence and alignment between the EU ETS and the overlapping instruments and policies introduced both at EU and at national level**, which have an impact on the European carbon market. It is worth noting that some Member States are already working on extending carbon pricing to sectors not yet covered by the EU ETS and on fuel usage bans in particular applications. The Commission should be able to set pathways for greater harmonisation between such national schemes and their eventual merging with an expanded EU ETS.

### The principle of technological neutrality should be featured as part of the overall policy approach to energy system integration in Europe

Turning to another dimension of the ESI Strategy, the pursuit of energy efficiency should not be expected on its own to solve Europe's decarbonisation challenge. Similarly, electrification should not be seen as a policy goal in itself. We believe that the strategy should facilitate

<sup>1</sup> The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org).

electrification only to the extent that the substitution of alternative energy carriers by electricity is commercially and technically viable, in open competition with other carbon neutral means of delivering energy to consumers.

We would like to recall that the Climate Law proposal suggests that “in taking the relevant measures at Union and national level to achieve the climate neutrality objective, Member States and the European Parliament, the Council and the Commission should take into account [...] **cost-effectiveness and technological neutrality** in achieving greenhouse gas emissions reductions and removals and increasing resilience.”<sup>2</sup>

While recognising different carbon abatement and sustainability characteristics of the decarbonisation technologies and solutions available, technological neutrality in delivering Europe’s decarbonisation objectives must be ensured. We therefore believe that the principle of **technological neutrality** should be featured as part of the overall policy approach to energy system integration in Europe. Furthermore, we reiterate the need for ensuring a level-playing field for technology developers and **a framework that recognises the environmental benefit of a wide range of available technologies and rewards carbon abatement in a market based, technology neutral way.**

It is increasingly accepted that cost-effective decarbonisation by 2050 will be impossible without molecules. Not all industrial use of energy can be electrified, there are not yet efficient mechanisms for storage of electricity over weeks, months and seasons in the volumes that will be necessary. The intermittency of electricity supply at higher levels of penetration of renewable generation is a challenge that the gas system is well-placed to help address. Additionally, the gas system provides a cost-efficient means of transporting large amounts of energy using already-invested assets, as an alternative to expansion of the electricity transmission grid or increased localised production at the levels that would be needed.

### Creating market led decarbonisation incentives

In order to contribute to Europe’s climate neutrality target, the gas sector must decarbonise. In this context, we believe that, in the short term, the Commission should give greater priority to the following two actions set out in the ESI Strategy and the EU Hydrogen Strategy:

- A) Setting up a regulatory framework for the certification of carbon removals (based on robust and transparent carbon accounting); and
- B) Developing a proposal for introduction of quotas in specific end-use sectors to support the uptake not only of renewable, but also decarbonised and low carbon gases.

While both strategies currently foresee quotas only for renewable hydrogen, we strongly believe that the future quota system must cover decarbonised and low carbon gases as well.

In our policy recommendations for the ESI Strategy<sup>3</sup> we set out how a pan-European system of low carbon quotas for gas suppliers, enabled by a “common currency” of carbon content can become feasible. This type of early stage market-based support mechanism could help kick start **a market in renewable and sustainable gas in Europe**. It would thereby help governments avoid handing out arbitrary subsidies for switching to low carbon fuels, thus

<sup>2</sup> European Commission proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law), Recital (15), p.12

<sup>3</sup> See EFET response to the Commission’s consultation on a future EU Energy System Integration Strategy: [https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET\\_recommendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration\\_1.pdf](https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET_recommendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration_1.pdf)

**minimising distortions to competition**, precluding any temptation to breach unbundling principles and **preserving the integrity of price signals** in existing energy commodity markets.

Apart from that, the common currency described in our recommendations could (together with the respective market-based support mechanisms) eventually **be extended to electricity and other energy carriers**, becoming one of the enablers for energy system integration.

### **Towards a pan-EU hydrogen market**

A European market-based support scheme, which would recognise the emission abatement element of methane reformation with CCS and pyrolysis as well as of hydrogen produced through electrolysis, could be instrumental in promoting **a pan-EU hydrogen market** beyond the existing market for hydrogen as chemical feedstock. Ultimately, in order to contribute to the overall efficiency and flexibility of Europe's energy system, hydrogen must become an integral part of the EU IEM.

We welcome the objective set out in the EU Hydrogen Strategy to move towards **“a liquid market with commodity-based hydrogen trading”**, which “would facilitate entry of new producers and would be beneficial for deeper integration with other energy carriers ... [and] **create viable price signals for investments** and operational decisions.”<sup>4</sup>

We also strongly support the Commission's commitment to **preserving sectoral unbundling rules**, featured in the Strategy. More specifically, the Hydrogen Strategy recognises that “to facilitate the deployment of hydrogen and develop a market where also new producers have access to customers, **hydrogen infrastructure should be accessible to all** on a non-discriminatory basis...[and] in order not to distort the level playing field for market-based activities, network operators must remain neutral.”<sup>5</sup>

### **Redressing the current "non-whole system approach" to the use and allocation of costs of power and gas networks respectively**

We welcome the Commission's intention to consider “the specificities of electricity used for energy storage or for hydrogen production” in order to “avoiding double taxation (so that energy is only taxed once when delivered for final consumption), and avoiding unjustified double grid charges.”<sup>6</sup>

However, this would not be enough to redress the current "non-whole system approach" to the use and allocation of costs of power and gas networks respectively. We need market arrangements across electricity and gas which would ensure that market participants face the forward looking costs they cause (or the benefits they create) on the energy system. This will involve a mixture of measures such as ensuring complete markets for flexibility services to grid operators and changes to grid tariffs across electricity and gas to better ensure they reflect the costs imposed by market participants.<sup>7</sup>

<sup>4</sup> European Commission's Communication on a Hydrogen Strategy for a Climate-Neutral Europe, p. 16

<sup>5</sup> Ibid.

<sup>6</sup> European Commission Communication on an EU Strategy for Energy System Integration, p.15

<sup>7</sup> See the sub-section “Whole system effects and the regulatory framework for transmission of gases” in the EFET response to the Commission's consultation on a future EU Energy System Integration Strategy, pp. 6-7: [https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET\\_recommendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration\\_1.pdf](https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET_recommendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration_1.pdf)

Finally, we reiterate that, in order for a future ESI Strategy and EU Hydrogen Strategy to facilitate Europe's energy transition and help reach ambitious climate objectives in a cost-effective way, we believe they should be underpinned by the following five policy priorities.<sup>8</sup>

**Policy priorities to underpin efficient energy system integration and cost-effective decarbonisation of the EU economy**

1. Setting an ambitious, **economy-wide climate neutrality objective at Union level**
2. **Strengthening the EU ETS** in the short term, as it currently applies to power generation and heavy industries, then **reforming and expanding** it to become a long-term driver for decarbonisation across the EU economy
3. Utilising **market-based mechanisms** and adapting market instruments whenever financial support for new, low carbon energy sources is considered, while **respecting sectoral unbundling rules**
4. Ensuring **pan-European coordination and cross-border implementation of any financial support schemes** for renewable, decarbonised and low carbon gases, especially in case national end-use prohibitions of hydrocarbons should be foreseen
5. Insisting on **technological neutrality** of measures, to include **a level playing field between power and gas systems**, so that users face a cost reflective allocation of costs across both types of grid, without cross-subsidisation

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<sup>8</sup> A detailed description of all policy priorities is available in our response to the Commission's consultation on a future EU Energy System Integration Strategy:  
[https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET\\_recom mendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration\\_1.pdf](https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/EFET_recom mendations%20for%20a%20future%20EU%20strategy%20on%20energy%20system%20integration_1.pdf)