

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

The European Federation of Energy Traders (EFET)¹ 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").

In our reaction² to the publication of both strategies, we welcome 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 EU economy**. We also strongly support the Commission's commitment to **preserving sectoral unbundling rules**, featured in the Hydrogen Strategy.

"Energy system integration in Europe must rest on a **continuation and strengthening of the European Internal Energy Market**" said Peter Styles, Executive Vice Chair of the EFET Board. "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**" added Doug Wood, Chair of the EFET Gas Committee.

At the same time, certain elements of the Commission's approach set out in the two strategic documents will require refinement and further development:

- 1) A proposal for the introduction of quotas to support the uptake of hydrogen in Europe?
In addition to renewable hydrogen, **any future quota and certificated system should leave room to recognise and reward decarbonised and low carbon gases**. In our policy recommendations for the ESI Strategy³ we set out how a pan-European system of low carbon quotas for gas suppliers, enabled by a "common currency" of carbon content to be applied in certificates, 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**.
- 2) Measures to redress the current "non-whole system approach" to the use and allocation of costs of power and gas networks
Both strategies currently fall short of recognising the need for market arrangements across electricity and gas which would ensure that **users face the forward looking costs they cause (or the benefits they create) on the energy system**. This will involve a mixture of measures, to ensure complete markets for flexibility services to grid operators, optimum utilisation of

¹ 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.

² See EFET reaction to the Commission's Communications on an EU Strategy for Energy System Integration and a Hydrogen Strategy for a Climate-Neutral Europe: https://efet.org/Files/Documents/Internal%20Energy%20Market/Energy%20System%20Integration/2020_0709_EFET%20reaction_EC%20Communications%20on%20EU%20ESI%20and%20H2%20strategy_final_1.pdf

³ 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

existing infrastructure and changes to grid tariffs across electricity and gas networks to ensure they reflect the whole energy system costs occasioned by various users.⁴

Turning to another dimension of the ESI Strategy, we point out *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*. The Strategy should facilitate 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.⁵

We look forward to continuing our dialogue with the Commission about development and implementation of both Strategies. In the meantime, EFET will be engaging with our counterparts involved in the debate on the future integration of Europe's energy system and the role of hydrogen, including regulators, TSOs, national governments and other industry associations.

⁴ 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

⁵ We point out in our paper 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."⁵

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**.