

28 November 2022

Brussels

## Making the Gas Package fit for purpose

Dear Energy Ministers,  
Dear Members of the European Parliament,

If we are to reach our climate and REPowerEU targets, the European gas market will change substantially from its current form. As shown by the Regulatory Assistance Project<sup>1</sup>, gas demand is projected to decrease substantially, already in the next years, replaced primarily by renewables, energy efficiency and electrification.

Renewable hydrogen is a key complementary solution for the decarbonisation of our heavy industry and transport and will be needed in vast quantities. As highlighted in the IEA's 2022 World Energy Outlook<sup>2</sup>, a net-zero scenario requires that 720GW electrolyser capacity is operational worldwide by the end of this decade.

Nevertheless, as detailed below, its use will be completely different from fossil gas. The upcoming hydrogen market, regulated through the proposed 'gas package', needs to be considered as a distinct market with new rules and new actors.

Requests from those new actors must be considered if we are to succeed in this transition. Through this letter, they are calling for a gas package that is fit for purpose, through:

1. A clear definition of 'low-carbon' hydrogen
2. A level-playing field that secures market access for renewables and electrification
3. An independent planning system for the emerging renewable hydrogen market

### 1) A clear definition of low-carbon hydrogen

The current lack of clear definitions is a major barrier for the deployment of the right, future-proof technologies. It creates an unlevel playing-field where fossil options can apply for EU funds without strict GHG emission requirements.

Investors and project developers need visibility, as early as possible, on the exact distinctions between the numerous production pathways for hydrogen.

**Low-carbon hydrogen** must comply with the 70% GHG emission reduction threshold. For this rule to be respected, full life-cycle analyses (LCA) must be carried out. Therefore, under the technology-neutral criterion of GHG emission reductions, there must be technology-specific LCA requirements, including **strict methane leakage and carbon capture rates** for the 'blue' hydrogen pathway (steam methane reforming coupled with carbon capture and storage/use – CCU/S). Those thresholds must be set at the most ambitious levels that are technically available to the industry, as put forward by

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<sup>1</sup> [Turning off the gas: Stronger and coherent EU policy to accelerate the fossil gas phaseout - Regulatory Assistance Project \(raponline.org\)](#)

<sup>2</sup> [World Energy Outlook 2022 – Analysis - IEA](#)

the International Council on Clean Transportation (ICCT). Directive amendments 494, 38 and 1039 complement each other in this objective.

## 2) Level-playing field

The role of network operators should be limited to providing network access, transmission and distribution, and they should not have any interest in the commodity itself. This rule should allow infrastructure to be accessible on a transparent and non-discriminatory basis. The only situation where **exemptions to unbundling rules** should apply is in a closed distribution system, not in a 'geographically confined' one (Directive amendments 748, 750 and 751).

In addition, the general rule of **regulated third-party access** should be applied across the EU from entry into force of the Directive. Creating a level-playing field in the hydrogen sector, where new entrants have no obstacle in accessing the infrastructure, and where infrastructure developers can recover investments, is a key condition for successfully decarbonising hard-to-electrify sectors. This level-playing field must be based on published tariffs, and be applicable to all customers without discrimination between system users (Directive amendment 662).

Finally, we suggest funding this crucial energy transition through **inter-temporal cost allocation** (Regulation amendment 259), and by enabling the easy and quick **access to EU and national funds** for project developers and offtakers. We are cautious about the introduction of discriminatory **tariff discounts**, as they go against the cost-reflectivity principle and promote blending into fossil gas (Regulation amendments 285 and 308). **Cross-subsidies** among different energy carriers are not the most efficient solution to fund the energy transition either and should be avoided as far as possible, particularly if originating from renewable electricity consumers, for the benefit of hydrogen (Regulation amendments 232, 236, 237, 260).

## 3) Independent planning

As mentioned above, renewable hydrogen will not replace fossil gas one for one. While fossil gas' main use in Europe is in power generation and low-grade heating, hydrogen's chemical characteristics will initially steer it to replacing in priority coke in industry, fuels in heavy-duty transports and grey hydrogen in chemical processes (feedstock). Rather, most fossil gas uses will need to be decarbonised through renewables, efficiency and direct electrification.

Therefore, while **ENTSOG will need to oversee the gradual phase-out of Europe's fossil gas infrastructure (through decommissioning or repurposing)**, an independent **ENNOH will need to facilitate the ramp-up of dedicated infrastructure for the transport of pure renewable hydrogen**. This requires distinct structures led by different actors, collaboration between them, but also proper consultation with the stakeholders of this new market. The **Commission's proposal on the creation of ENNOH is completed by Regulation amendments 421, 432 & 537**.

We thank you in advance for your support and stand ready to expand on those positions if needed.

Yours sincerely,

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CEO, SolarPower Europe



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