

RED II revision Position Paper

Key statements and proposals

ENTSOG's welcomes the European Commission's initiative to revise RED II - the Renewable Energy Directive. Our key proposals for the future RED III are the following:

- **low-carbon gases** should be included in the scope of RED III and benefit from the supporting policy framework available for renewable gases. This change will secure a level playing field for various types of energy and decarbonisation solutions;
- RED III should introduce a **clear terminology for low-carbon gases**, next to renewable. This change will help market players make a well-informed choice in relation to the consumed energy products and the energy mix;
- RED III should promote **market signals for the development of the renewable energy** instead of administrative arrangements (e.g. additionality, geographical and temporal correlation criteria introduced for renewable hydrogen in transport). This change will relieve market players from administrative burdens and facilitate investments in renewable energy technologies by providing a level playing field;
- RED III should create a **'single currency' for the EU climate market** via an EU-wide certification system based on Guarantees of Origin (GO) for renewable and low-carbon energy. The GO system should inform market players about the origin and carbon footprint of the produced energy and accommodate sustainability information provided by the EU recognized Sustainability Certification schemes. Subject to the request of market players, additional information on the supply chain could be added to GOs. This change will incentivise the trade of the climate value in the EU market and simplify for the market players compliance with the EU ETS and financial support schemes;
- RED III should facilitate **interaction between the climate (GO) and the EU ETS markets**. In particular, the use of GOs as a purchase record of renewable and low-carbon gases should be promoted together with a general understanding of the European gas infrastructure as a 'single logistical facility' or a 'single gas grid'. This change will facilitate the development of the EU climate market and enable a workable and harmonised implementation of the revised EU ETS MRR (Monitoring and Reporting Regulation) by 1st January 2022.

Introduction

The new 2030 climate target announced by the European Commission¹ requires substantial changes in the EU energy policy, in particular setting a legal framework for the energy system integration, decarbonisation of the energy sector and kick-starting the EU hydrogen market. In this context, one of the key legal instruments that will be amended is the Renewable Energy Directive 2018/ 2001 (RED II).

As follows from the Commission's communications, RED II revision could present an opportunity to introduce:

- an incentivising, supportive policy framework to enable renewable and low-carbon hydrogen to contribute to decarbonisation at the lowest possible cost²;
- a comprehensive terminology for all renewable and low-carbon fuels and a European system of certification of such fuels based notably on full life cycle GHG gas emission savings and sustainability criteria³;
- additional support measures for renewable hydrogen⁴.

This paper sets out ENTSG's key proposals to be fed into the Commission's work on drafting legislative revisions for RED II planned for Q2 2021⁵.

1. Extension of RED II scope to low-carbon gases

ENTSG believes that RED II needs to be modified in a way to facilitate not only renewable gases but also the uptake of low-carbon gases which demonstrate GHG emissions savings. By '**low – carbon gases**' we mean those gases which are produced from non-renewable energy sources (e.g. non-renewable electricity, natural gas, other hydrocarbons) but which have a low carbon footprint defined with a reference to a certain threshold (the way to define this threshold is discussed in the following section). This group of gases could include, for example, hydrogen produced by pyrolysis (CO₂ free), steam methane or autothermal reforming of natural gas in combination with carbon capture, use and/or storage (CCUS).

Low-carbon gases could speed up the decarbonisation of the energy sector in a cost-effective manner as envisaged by the Commission⁶ since they have a high climate (decarbonisation) value and represent a less expensive decarbonisation solution compared to renewable gases.

As such, a supporting policy framework for low carbon gases (similar to the one introduced for renewable energy) should be put in place. In particular, the use of existing tools such as

¹ 2030 Climate Target Plan, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0562>

² Hydrogen Strategy, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0301>

³ ESI strategy, https://ec.europa.eu/energy/sites/ener/files/energy_system_integration_strategy.pdf

⁴ Hydrogen Strategy, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0301>

⁵ Annex I to the Commission's 2021 Work Programme, https://eur-lex.europa.eu/resource.html?uri=cellar%3A91ce5c0f-12b6-11eb-9a54-01aa75ed71a1.0001.02/DOC_2&format=PDF

⁶ Hydrogen Strategy, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0301>

the system of Guarantees of Origin (GO) outlined in Article 19 of RED II would help facilitate production and consumption of low-carbon gases and their trade in the internal EU energy market. For a European-wide tradability, it is essential that certificates issued in one Member State can be recognised and used in another Member State.

Current RED II provisions oblige Member States to issue GOs to producers of renewable energy (as a general rule), including hydrogen and biomethane, whereas the GO issuance to non-renewable energy remains an option in the hands of Member States. We believe that the issuance of GOs to low-carbon gases should also become an obligation for the Member States rather than an option, which requires respective changes in RED II.

These changes would promote the development of low-carbon gases via a common harmonised EU framework for disclosure and trade of the energy climate value and prevent a risk of regulatory fragmentation and market distortions in the evolving energy markets. Such rules would be more effective in facilitating energy system integration and creating a level playing field for trading different types of energy, if they are accommodated in a single piece of EU legislation - RED II. Otherwise, there is a risk that rules scattered across different types of the legislative acts would also differ in substance which may create significant barriers for the functioning of the internal energy market.

2. Terminology for low-carbon gases

We believe that a clear terminology for low-carbon gases, in addition to the existing one for renewable gases, should be introduced in RED II in order to help market players differentiate between the different energy products and thereby make a well-informed choice in relation to the consumed energy products and the energy mix. This clear terminology would be essential for the EU-wide GO system and would allow market players to distinguish between renewable and low-carbon energy carriers which would both be eligible for the GO certification. It would also facilitate a clear distinction to be made between low-carbon energy carriers and other non-renewable energy carriers with a higher carbon footprint.

This 'low carbon' label would be given when the carbon footprint of the considered energy carrier is under a certain threshold (to be defined). The carbon footprint should cover greenhouse gases (GHG) emitted up to the moment of the energy production and/or its supply to the final consumer. The threshold and full lifecycle analysis, i.e. counting of GHG emissions of the value chain of the energy product, should be discussed in order to come up with a workable solution for market participants. For instance, one should take into account that when a GO is issued, the final use of the energy carrier is not known.

3. Additionality, temporal and geographical criteria for counting the share of renewable energy in the transport sector.

Article 27(3) of RED II sets out criteria for the calculation of the minimum share of renewable energy in the transport sector, including the use of renewable hydrogen. One of the criteria is that the production of the renewable transport fuel of non-biological origin needs to ensure an increase in the electricity demand and facilitate construction of additional renewable electricity capacities. The Commission is tasked to develop detailed rules for implementation

of such an additionality concept. With regard to the renewable hydrogen, this criterion is complemented with temporal and geographical correlation requirements.

We believe these criteria and requirements could represent obstacles for investments into renewable hydrogen and electricity technologies and should be simplified (or at least, better clarified) and if they result in obstacles for hydrogen development - completely removed from RED II. They also impose discriminatory requirements for hydrogen producers compared to other electricity users leading to a lack of a level playing field. Furthermore, application of these principles would not help to increase the share of renewable energy in the general energy mix. On the contrary, they could hinder achievement of the future increased EU target for consumption of renewable energy by putting in place a kind of merit order in the use of renewable electricity rather than promoting a level playing field between all users of renewable energy.

We believe that additional production of renewable electricity and hydrogen could be primarily stimulated with market-based instruments such as the GO system which provides for additional revenues for renewable energy producers and motivates them to invest in new technologies and production capacities.

4. Building an EU market for climate value via a certification system

GIE and ENTSOG are co-chairing the work of a group of associations on GOs (the 'GO Prime Movers Group') and have presented the views of the group at the last three meetings of the Madrid Forum. These associations are looking for a market for the climate value of all renewable and low carbon energy carriers represented via GOs and certificates which are easily transferable between energy carriers and across borders. In addition, GO defined in RED II should be compatible with the EU ETS and other instruments of the EU climate policy (i.e. recognised as a proof of origin in different pieces of the EU legislation). The climate value is mainly defined by the origin of the energy sources, the sustainability of the energy production process and its decarbonisation potential.

To facilitate the creation and development of such a market, a European-wide certification system is needed which, amongst other things, discloses specific climate characteristics of the energy carriers in order to help consumers make a well-informed choice about the climate value of the energy they are going to consume. We believe that this certification system should be built on the basis of the existing GO system where the trade in the climate value represented by GOs is decoupled from the trade in the physical energy (so called 'book and claim' method). This system also ensures interoperability of GOs across EU Member States and their conversion from one energy carrier to another.

This market-oriented system has already been introduced in RED and is widely implemented in practice. It allows market players to quickly exchange the climate value in the internal EU market with minimum administrative costs and thus could speed up the development of low-carbon and renewable energy. However, in the light of the Green Deal and enhanced climate

targets, its scope should be extended in order to cover low-carbon energy carriers. It also requires additional technical adaptations that could be promoted via the revised RED II.

In particular, additional content requirements should be imposed, i.e. the GOs for all energy carriers should indicate the carbon footprint of the produced energy. This change would ensure that the GO could be used as a common carbon currency and help kick-start the European climate market. It is also important to ensure that the GO's lifetime takes into account physical characteristics of the energy product (e.g. the storability of gases over a longer period of time compared to electricity which may require extension of the gas GO validity and expiry period) and does not obstruct GO conversion and trading.

Moreover, the RED II should also allow to link the GO schemes with EU recognized Sustainability Certification schemes (e.g. for renewable biomass fuels and other Label Schemes that provide additional sustainability information). It means that the producer of the renewable fuel should have the possibility to disclose the information on its sustainability and production cycle via the GO once this information is properly verified by respective sustainability audits and EU recognised voluntary schemes. Upon requests of energy producers and consumers, the GO could also provide information about the means of the energy supply (e.g. via injection into the gas network) as needed for the functioning of a Sustainability Certificate scheme (so called 'mass balance' system). These changes would ensure that consumers have complete and trustworthy information on the renewable fuels in their energy mix which they could use in a workable and simple way as a proof of compliance with specific requirements of the national support schemes (e.g. demand quotas) or the EU ETS.

To link the GO and Sustainability Certification schemes and thus promote a harmonised cross-border trade of renewable gases, it is also important to clarify in the revised RED II that the European gas infrastructure is considered as a 'same gas grid' or a single logistical facility, given its high interconnectivity (not only of pipelines, but also of storage sites and terminals) and the fact that renewable gases injected into the gas infrastructure in one Member State can physically and virtually flow to another. This would partly solve the dichotomy between a GO scheme relying on a market-based 'book and claim' system and a Sustainable Certificate scheme relying on a 'mass balance' system (i.e. where you count what is injected and what is withdrawn), by bringing trust via tracing renewable gases and avoiding any risk of double counting. This change would also prevent a risk of confining the exchange of GOs and Sustainability certificates within the boundaries of a single Member State or its regions contrary to the basic principles of the internal market. Furthermore, it would simplify for market players the process of complying with requirements of the updated EU ETS Monitoring and Reporting Regulation thus will ensure coordination between different measures of the EU climate and energy policies.