

27 July 2021

**Subject: EFET<sup>1</sup> response to the draft Commission Implementing Regulation (EU) on rules to verify sustainability and greenhouse gas emissions saving criteria and low indirect land-use change-risk criteria**

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EFET welcomes European policies to decarbonise the energy sector and eventually the whole economy, with renewable energy sources playing an important role in achieving eventual net zero carbon. We also appreciate the open dialogue and consultation on measures intended to help implementation of EU legislation, such that affected industries can deliver environmental objectives efficiently.

**However, EFET is concerned that the proposed *Implementing Regulation on rules to verify sustainability and greenhouse gas emissions saving criteria and low indirect land-use change-risk criteria* will inhibit the development of markets for renewable gases outside the transport sector and prejudice the development of effective rules to be set in the forthcoming Hydrogen and Gas Markets Decarbonisation Package, which is expected later this year. In particular, provisions related to the Union database are wholly unsuitable for the business of selling, transporting and buying gases through the medium of an interconnected gas system.**

**Our primary concern is that the proposal to register and track transactions through the whole supply chain is inoperable** for the following reasons:

1. The supply of gases is disaggregated along the value chain. Traders, aggregators and suppliers intermediate between producers and customers, to divide and recombine quantities of gas in order to shape supplies to match customer demand profiles, using production flexibility, storage injection and withdrawal, and wholesale trading.
2. The operation of exchanges with central counterparties relies on the homogeneous nature of the commodity, allowing a product to be divided, re-traded and combined many times. This, in combination with active wholesale markets at virtual trading points, allows price transparency to emerge, the formation of indexes and price risk management tools.
3. Operators of integrated gas networks optimise the system by substituting gas across production/import locations and consumer sites in order to minimise operating costs and gas losses, and make most efficient use of available capacity. In such networks, the physical flow of molecules is necessarily independent of the supply contract.

<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).

These three factors mean that transaction data cannot be passed through a supply chain in the same way as a distinguishable physical product. In this sense, gas trading through interconnected networks has a strong similarity to electricity trading.

**Accordingly, EFET recommends that renewable gases that are supplied through networks (whether for transportation or other use) are excluded from requirements as proposed in this Implementing Regulation and that arrangements for Guarantees of Origin (GoOs) should be established for gases, building on work already done by the Association of Issuing Bodies (AIB).**

Listed below are examples of where proposals appear inoperable and wording confusion arises.

- The concept of *economic operators* as proposed does not recognise the role of traders and suppliers in markets for sustainable gases. The creation of wholesale commodity markets for natural gas and the pooling of transactions at virtual trading points have been key enablers of liquid traded markets and transparent price formation. These are central to efficient operation of integrated energy systems, price risk management, and making informed investment decisions.
- Article 18.1 requires *data to be transmitted through the whole supply chain as well as data that is specific for the individual transaction*. As noted above, the nature of gas trading is such that intermediaries can combine and divide quantities of gas in order to shape supply profiles to match customer demand, with production flexibility, storage utilisation and wholesale trading. Furthermore, where a consumer wishes to lock in a future price, a trader may sell forward volumes that have not yet been purchased and whose source is as yet unknown. The operation of exchanges with central counterparties relies on the homogeneous nature of the commodity, allowing a product to be divided, retraded and combined many times. Gas infrastructure operators physically operate the system by delivering gas to consumers along the most efficient path and substituting gas produced locally where the buyer of gas may be located distant from a production site or upstream of the production facility. The information cannot therefore be passed through a supply chain as if it accompanied an identifiable and distinguishable product.
- Article 18.2 refers to “physical shipments”. This suggests that the text was originally designed for a product to be conveyed as a fixed volume or amount in an identifiable and traceable container, rather than through pipelines under a common carriage system.
- Article 19.2(b) references the concept of a “product group”. Yet, current studies (including those steered by ENTSOG Primer Mover Group on gas quality standardization and hydrogen handling) are still in process to understand how existing natural gas infrastructure may be used for conveyance of hydrogen and blends, and how gas-burning appliances are affected by proportions of renewable and low carbon gases mixed with

natural gas as a means of phasing out natural gas progressively. The definition of “product group” will be fundamental to how this may be delivered.

- Information that should be recorded for mass balance purpose is also contained in Guarantees of Origin that may be transacted under book and claim systems, yet the interlinkage between both allowable schemes is not recognised. Again, this creates a very uncertain environment for commercial parties and investors who are operating in this space.
- Even by limiting such rules to the transport sector only, separate markets would be created e.g. for biomethane or for renewable hydrogen, depending on whether the final intended use was for domestic, commercial, industrial or power generation use, or for transport – which would not necessarily be known at any facility at the point of production. This could only be achieved by limiting the market to bilateral trades between producer and consumer and removing the role of intermediaries, hindering the development of a sustainable gas market in the EU.

EFET makes the following recommendations:

Pending development of legislation under the Hydrogen and Gas Markets Decarbonisation Package, the Commission should clarify that renewable gases transported and/or distributed through integrated pipeline networks are excluded from these requirements, whatever their end-uses. If the transport sector were to be specifically included, then additional provisions would be necessary to ensure workability. Not least, the recognition of European gas infrastructure as a single logistical facility and clarity over conversions between GoOs and Sustainability Certificates would be needed.

It has long been accepted that in networked electricity systems, it is impossible to track electrons from production to consumption site. This should be extended to gas networks if we are not to limit the sale of renewable and low carbon gases only to sites that are immediately downstream of production facilities.

As explained above, an obligation to track commodity transactions as a pre-requisite for recognition of an accompanying certificate would impede liquidity in the underlying commodity market and hinder rather than advance trade between member states in gaseous fuels through interconnected systems. To achieve the same objective, enhanced GoOs (GoO Plus<sup>2</sup> instruments) could also be developed under the Hydrogen and Gas Markets Decarbonisation proposals in ways to help deliver RED II objectives and create connectivity between the legislative packages.

<sup>2</sup> EFET Position Paper (30 June 2021): Guarantees of Origin and sustainability certificates: facilitating markets in renewable and low carbon energy attributes,  
<https://www.efet.org/files/documents/210630%20CNSG%20PP%20GoOs%20and%20sustainability%20certificates.pdf>