EFET
European Federation of Energy Traders

EFET recommendations on the latest draft of the RED II Delegated act on renewable liquid and gaseous transport fuels of non-biological origin

The European Federation of Energy Traders (EFET[1]) wishes to put forward our recommendations on the latest draft version of the Delegated Act on rules for qualification of production of hydrogen through water electrolysis as "green" or "renewable", under article 27.3 of Directive (EU) 2018/2001 (RED II)[2].

1. Grandfathering and RES-E installations directly connected to the grid

We welcome the inclusion of grandfathering under article 10, which exempts installations coming into operation before 1 January 2027 from the criterion of additionality and the requirement for the installation not to have received any form of financial support. We also understand that the non-applicability of articles 5 (a) and (b) until 31 December 2036 is meant to incentivise "first mover" projects, which may sign a PPA under current market conditions. **We think this should be extended to projects coming online before 2029. In addition, grandfathering should apply to the full lifetime of the projects and not expire in 2036. The DA currently also appears to exclude installations falling under Article 3 (*electricity obtained from direct connection to a RES-E installation*). A clear statement that the grandfathering provisions apply additionally to these installations will help to boost investment also in these projects.**

Although we welcome the relaxation of the additionality criterion to 36 months, the possibility for an existing RES-E plant to be deemed additional under a new PPA and the consideration of multiple offtake contracts under article 5, we understand that the relevance of the Delegated Act will decrease over the next few years, due to the increasing penetration of low-carbon and renewable energy in most Member States. **To help kick-start an EU market in renewable hydrogen, greater legal certainty for medium- and short-term investment decisions will be advantageous. There should therefore be a clear time-horizon for the Delegated Act with an end-date when it will cease to apply.**

[1] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. 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. EFET currently represents more than 130 energy trading companies, active in over 27 European countries. For more information: www.efet.org

[2] https://ec.europa.eu/transparency/expert-groups-register/screen/meetings/consult?lang=en&meetingId=46000&fromExpertGroups=true

2. Abolition of hourly temporal matching after 1 April 2028

We call on the EU Commission to relent on the implementation of hourly matching between electricity consumption in an electrolyser and RFNBO generation as of 1 April 2028 under article 6. **This would represent a very "hard landing" which could discourage early investment when experience of operation is still low, and markets for hourly matching products and energy storage are still developing. A progression of monthly to daily temporal correlation – at least for a transitional phase – would provide for a softer landing that would maintain investment incentives.**

However, if the above solution is not possible to implement, an extension of the transitional period of monthly temporal correlation until 1 January 2030 would be consistent with the likely commissioning of the first industrial scale green hydrogen projects and the development on the initial hydrogen backbone, which would be an important help to early projects during this phase.

We refer you to our consultation response for detailed citations of studies performed by our member companies regarding cost-saving for electricity purchased from wind power stations and improvement of load-factor for electrolysers through a monthly accounting period[3].

3. Additionality of storage assets

We welcome the addition under article 6 of the possibility for an electricity storage asset to be located either behind the same network connection point as the RES-E plant or the electrolyser. This provision enables the use of existing storage assets, as well as storage investments in locations that could provide wider flexibility to the grid. The location of the storage asset should not matter as long as it is on the same side of the congestion as the electrolyser and the RES-E plant in a given hour.

If the use of a storage asset is envisaged in a PPA contract between a RES-E generator and an electrolyser operator, and if the RES-E plant qualifies as additional generation capacity under this contract, any associated storage capacity should also qualify as additional irrespective of its location.

[3] https://efet.org//files/documents/220617%20CNSG%20RES%20GAS%20WG%20CR%20RFNBO.pdf

4. Geographical correlation provisions

4.1 Consideration of multiple bidding zones as one within Member States

We welcome the revised approach in the latest draft of the Delegated Act regarding the export of power from RES-E plants to an interconnected (as opposed to neighbouring) bidding zone. We understand that this approach also allows for cost-scaling. For instance, an electrolyser in the Netherlands may now receive power not only from Germany, which is a neighbouring bidding zone, but also from Poland, which is an interconnected one.

However, as part of the possibility given to Member States under article 7.2 to introduce additional locational criteria to ensure compatibility of capacity additions with the national planning of their hydrogen and electricity grids, **operation would be simplified through inclusion of a clear provision enabling Member States with multiple bidding zones to consider all bidding zones as one.**

4.2 Congestion factors and consideration of forward transmission rights

We acknowledge the intention under article 7 (1) (b) (c) to give the benefit of the doubt to RES-E plants from which power is exported to an interconnected bidding zone against the dominant flow. This logic seemingly proceeds from the indication given by the day-ahead market coupling outcome that there is no binding congestion between bidding zones in the direction high-price to low-price. However, reserved capacity allows for electricity to flow regardless of congestion. **The Commission analysis should thus consider situations in which two or more interconnected bidding zones may end up with the same price emerging from day-ahead auctions in the market coupling for 50 percent or more days of the year. It should also consider the possibility for electrolyser operators or RES-E generators to buy forward transmission rights, which guarantee access to transmission capacity between two bidding zones**[4].

Even if binding congestion at times occurs towards the opposite direction, there may still be a business case to sell into the high-price area, even if feasible only in some days of the year or via purchase of forward transmission rights.

We kindly ask for the above recommendations to be considered in the forthcoming adoption of the Delegated Act, as well as while revising the RED II and the pertinent Delegated Act extending their provisions to prospectively all end-uses of green hydrogen. Unless the governing provisions in EU secondary legislation can be amended during RED II revisions, the same constraints are likely to end up governing other sectors, beyond transport.

[4] https://efet.org/files/documents/20220406_EFET_Insight_7_Transmission_Capacity.pdf