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Contribution from GIE

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The recently released European Commission's Fit for 55 package has confirmed the need for mobilising both the private sector and public funds to deliver on the European Union's climate neutrality objective. To meet the investment challenge ahead of us, appropriate state aid rules will be needed. In this context, Gas Infrastructure Europe (GIE), representing around 70 European companies operating storage facilities, transmission pipelines and LNG terminals, welcomes the European Commission's public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG).

In particular, GIE concurs with the technology neutral approach applied to the current draft communication. The recognition of the positive contribution of Carbon Contracts for Difference towards the decarbonisation of the energy transition is another point worth mentioning, as is the addition of the hydrogen energy infrastructure category, and the broadening of the gas and carbon dioxide categories.

To further support a cost-effective and just transition and ensure a level-playing field in the internal market, GIE calls for the following:

1. The eligibility of hydrogen-ready projects for state aid:

We understand that not all infrastructure projects that contribute to decarbonisation targets will receive the status of Project of Common Interest (PCI). However, the expansion of the infrastructure for renewable electrons and molecules is of outmost importance to enable the ramp-up of renewable energy. Therefore, all infrastructure projects that are part of the Ten-Year Network Development Plan (TYNDP) and ready to integrate hydrogen and other renewable gases should be eligible for state aid under the revised guidelines.

2. Allowing state aid for the operational costs of hydrogen pipelines:

Section 2.4 (35) (b) (i) and (c) (i) includes transmission pipelines for the transport of hydrogen that form part of a network under the definition of 'energy infrastructure'. GIE believes that state-aid guidelines for the operation of hydrogen pipelines must be allowed, especially in the market ramp-up phase. Support to develop hydrogen infrastructure based upon existing natural gas infrastructure needs to take into account that infrastructure is built for the future market and higher capital and operational cost can be a result of that. Indeed, while the

operation of the existing gas network infrastructure is usually financed via tariffs (no state aid necessary), hydrogen infrastructure development requires a flexible approach as the market state is different. Hydrogen infrastructure projects can be supported by state aid to reduce the required equity financing amounts, thereby reducing transmission tariffs, as the share of the investment now covered will not be reflected in the customer's tariffs. State aid will be one way, among others, to help develop the hydrogen infrastructure, and the revised Guidelines should thus allow state aid for operational costs (or a combination of capital and operational cost) of hydrogen pipelines.

3. Allowing state aid for the conversion of underground gas storage facilities to hydrogen:

Section 2.4 (35) (b) (ii) and (c) (ii) includes underground storage facilities for gas or hydrogen connected to high-pressure pipelines under the definition of 'energy infrastructure'. While the storage of renewable gases (e.g. biomethane or hydrogen) is of great relevance for achieving the EU's energy and climate goals, the current demand for these services is not very pronounced and the associated prohibitive capacity fees can create market entry barriers for storage operators. Against this background, state aid can offer the necessary positive incentives for the conversion of suitable underground storage facilities, which could not take place due to the lack of market maturity. In this case, the aid can be assumed to have a positive incentive effect. GIE thus recommends making it clear in the draft communication that retrofitting or repurposing underground gas storage facilities to hydrogen should be viewed both as a 'modernisation' of energy infrastructure and as a transition towards a carbon neutral energy infrastructure, as underground gas storages are key providers of a cross-sectoral flexibility in an integrated energy system.

4. A level playing field among storage system operators:

In assessing the compatibility of aid measures for underground storage facilities, it is important to ensure that regulated network tariffs are not specified as a prerequisite. Storage operators organised in a market economy should not be disadvantaged in terms of state aid compared to regulated storage operators since both would overcome identical market barriers.

5. Allowing state aid for retrofitting existing gas infrastructure:

Section 2.4 (35) (b) (v), refers to "Smart Gas Grids". This concept covers certain equipment or installation aiming at enabling and facilitating the integration of renewable and low-carbon gases (including biomethane or hydrogen) into the network. However, the current definition is restricted to digital/IT equipment, metering and quality control, and reverse flows. GIE believes that the concept of Smart Gas Grids should be expanded to cover adequately the retrofitting of existing gas infrastructure (pipelines, LNG terminals and existing underground storages), to be able to handle different shares of hydrogen/gas mixtures (also known as hydrogen blending). Hydrogen blending into existing gas infrastructure is a cost-efficient transitional option in many regions of Europe, which can help develop renewable/low-carbon hydrogen production in order to achieve a positive business case for the subsequent full

conversion of the existing gas infrastructure to dedicated hydrogen infrastructure. For this reason, GIE believes that the investments and operation costs associated to the retrofitting of existing gas infrastructure for hydrogen blending should be eligible for state aid under the revised CEEAG.

6. An inclusive definition of “energy infrastructure” & a specific definition of “dedicated infrastructure”:

The current draft prescribed in detail that offshore infrastructure falls under the scope of electricity infrastructure and even specific details on hybrid use there are introduced. GIE calls on the EC to include hydrogen, including repurposed offshore gas pipelines, and CO₂ into the definition as we expect the roll out of these gases’ infrastructure in this decade. For hydrogen, it would be mainly due to its increased benefits in terms of energy system integration, thereby increasing harnessed renewable energy and alleviating the burden on the electricity system. For CO₂, the need for a combined network at sea (from multiple onshore sources) linked to offshore storage is seen as a pre-requisite to reach our greenhouse gas emission reduction in hard-to-abate sectors.

Furthermore, it is stated that assets listed under points (a) to (g) in section 2.4 (35) which are built for one or a small group of ex ante identified users and tailored to their needs, qualify as ‘dedicated infrastructure’ and therefore do not qualify as ‘energy infrastructure’. In our view, a nuance to the definition of ‘dedicated infrastructure’ is needed. In some cases, it may be inevitable that infrastructure is built (at least initially) for a small group of ex ante identified users, i.e.: First Movers, based on the non-discriminatory principle of third party access. When the infrastructure is already up-and-running (and/or the market has matured), other parties may also become interested in using this infrastructure at a later stage. The infrastructure should not be considered as dedicated infrastructure (and hence be excluded from funding), solely because it is initially built for a small group of First Movers. A case-by-case analysis of the infrastructure utilisation should be allowed and flexibility given at Member State level, thereof.

7. Ensuring that the role of markets is preserved:

GIE in general supports the provisions on security of supply and the allocation of costs in periods of peak electricity demand laid down (towards polluters) in §324 of the CEEAG. However, GIE believes that the expected implementation of the principle of additionality and its temporal and geographical correlation criteria for green hydrogen and Renewable Fuels of Non-Biological Origin (RFNBOs) will pose a risk to the purposes of this article. The additionality principle and the correlation criteria do not enable a system-optimal use of renewable electricity for green hydrogen production, replacing market outcomes by administrative rules. Renewable hydrogen production via renewable electricity should be adequately certified for origin, but remain market-driven and be allowed to keep following up a system-wide complementary approach (for the best renewables integration and sector coupling energy efficiency) where green hydrogen is produced at low costs and where its unique ability to be

stored is used as a benefit for the whole energy system, without incentives disruption. Hydrogen can not only balance volatile renewable electricity demand, but a dedicated infrastructure for hydrogen can also provide benefits to the whole energy system by, for example, reducing the risk of electricity grid congestion. We therefore ask the Commission to make sure that the CEEAG takes into account these aspects, when assessing security of supply and stability of the energy system. The role of the markets should be preserved and distortion of efficient signals should be avoided in regulation.

GIE stands ready to provide additional information on the above points to the European Commission's Directorate-General for Competition and would be pleased to further discuss this contribution during a dedicated meeting.