

Joint position of gas Distribution System Operators on the proposed unbundling rules for hydrogen

The undersigned organisations jointly representing European Gas Distribution System Operators are concerned about the proposed rules for the unbundling of hydrogen network operators under the ‘Hydrogen and Decarbonised Gas Market’ package.

The European Commission’s proposal of December 2021 contains new unbundling rules that are unnecessarily restrictive for hydrogen network operations compared to the existing rules for natural gas. Unbundling rules are a key provision of the third energy package and guarantee a competitive market. The revision of the electricity legislation through the Clean Energy Package has confirmed existing unbundling rules because of their structural importance. There should be no excessive unbundling rules for hydrogen distribution system operators.

Hydrogen is a nascent market with few producers compared to potential demand and for which gas distributors play a fundamental role in linking supply and demand. Gas distribution grids today provide a secure, resilient, and flexible energy supply to millions of consumers, from households and small businesses to large industrial users. Thanks to its local footprint and proximity with an increasingly decentralised energy production, this existing infrastructure is a critical enabler for a cost-efficient decarbonisation of various sectors, accelerating the diversification of gas supplies, including with hydrogen, and reinforcing security of supply.

An important success factor for the gas market package revisions will be ensuring gas distributors are enabled to support the development of the hydrogen market by extending their activities to hydrogen distribution. We therefore urge the co-legislators to ensure that future unbundling rules for the distribution of hydrogen are fully aligned and consistent with the existing unbundling rules for natural gas which means:

- 1. Introduce a differentiation between distribution and transmission activities with distinct and tailored rules for hydrogen DSOs and TSOs.**
- 2. Do not require vertical ownership unbundling of hydrogen distribution infrastructure in integrated DSOs.**
- 3. Do not require horizontal legal unbundling of hydrogen and natural gas distribution activities.**

Unbundling rules for the distribution of hydrogen should thus be fully aligned and consistent with the existing unbundling rules for the distribution of natural gas.

- 1. Introduce a differentiation between distribution and transmission activities with distinct and tailored rules for hydrogen DSOs and TSOs.** The proposed Directive does not differentiate between hydrogen distribution and transmission. As a consequence, the rules strictly designed for the transmission sector would have to be implemented also at the distribution level. This would *de facto* prevent existing distribution system operators to develop and distribute hydrogen within their existing company structure. Considering that the unbundling rules for natural gas are considered effective and sufficient by the Commission’s impact assessment, this seems unwarranted. The reasons to differentiate between distribution and transmission have not changed since the 3rd package, including the de-minimis rule for DSO < 100.000 connections.
- 2. Do not require vertical ownership unbundling of hydrogen distribution infrastructure in integrated DSOs.** The existing unbundling rules were implemented by the 1400 gas DSO in Europe in the past 13 years, and they have proven to be efficient: competition at the end user level has

developed strongly over the years and hundreds of biomethane plants were already connected to the grid. The rules proposed by the European Commission for the unbundling of ‘hydrogen network operators’ make it impossible for existing vertically integrated companies - this applies to almost all DSOs across Europe - to jointly operate hydrogen and methane without being ownership unbundled. Ownership unbundling will strongly discourage the DSO from investing in retrofitting or repurposing of existing natural gas infrastructure or building dedicated new hydrogen infrastructure to connect local hydrogen production to demand. Ownership unbundling requires infrastructure operators, that are part of a vertically integrated company to divest the infrastructure in the moment they start operating dedicated hydrogen infrastructure, including for instance the connection of an electrolyser to the distribution grid. The existing alternative models at the TSO level of the ISO and ITO do not represent an alternative for DSOs, as they were not designed for DSOs and are unnecessarily complex regarding the operational and investment rules.

- 3. Do not require horizontal legal unbundling of hydrogen, electricity and natural gas distribution activities.** Infrastructure operators must work closely together and complement each other to achieve the decarbonisation targets. The decarbonisation pathway of the distribution grids will vary across companies and countries with hydrogen and biomethane. It will, amongst other, greatly depend on the results of the forthcoming mandatory local heating and cooling plans. To introduce a separate operator for hydrogen adds to the complex operation of connecting production plants, convert grids, meet customer needs while ensuring security of supply and the safe operation.

Gas Distribution System Operators (DSOs) are central to the energy transition.

The whole energy system is confronted with the rapidly evolving need for flexibility. We are seeing increased interaction of sectors as far and wide as mobility, agriculture, industry, and buildings, with the consumption and production of heat, gases, and electricity at all levels. Gas DSO grids will be a crucial part of the energy system of the future for their unique capability to connect local production and demand.

Gas DSOs will continue to be the main entry point for renewable gases, be it biomethane or hydrogen. A substantial share of the existing biomethane plants is connected to the distribution networks, providing their operators with already great expertise (e.g., in Denmark, biomethane accounts already for 25% of the grid). Most of the future electrolysers will be injecting hydrogen at the distribution level due to the fact, that the majority of existing and future PV and onshore wind installations are installed decentral and close to the gas DSO.

Gas DSOs connect up to 100 % of the industrial and commercial customers to the grids and deliver about 50% of the gas consumed by EU industry for energy purpose. A strategy to decarbonise gas consumption of EU industry cannot ignore the central role of DSOs in the energy transition.

Gas DSOs are also a central part of cross-sectoral solutions such as district heating and cooling (DHC) based on gas-fired cogeneration. Gas DSOs deliver about 40% of the gas consumed for gas based DHC.

The Ready4H2 consortium, covering 91 DSOs across 21 countries plus the Energy Community Contracting Parties demonstrates that over 1,1 million km of pipelines is material ready for conversion to pure hydrogen. This represents over 95% of the combined network of Ready4H2 members. The members are committed on their path to decarbonization and have already started with the concrete planning of the conversion.