

Preconditions for the Development of Hydrogen Markets: EEX Comments on the Cornerstones of a Transitional Regulation for Hydrogen Networks

EEX would like to express its gratitude for the opportunity to comment on the ongoing discussion regarding hydrogen network regulation. Moreover, we welcome the short-term readiness of BMWi and BNetzA to create rules facilitating the ramp-up of the hydrogen market. The **dialogue between relevant actors** – generators, shippers, storage facility operators, trading platforms, dealers, consumers, and regulators – contributes to the identification of appropriate solutions for the hydrogen market which are acceptable for all parties involved. At the moment, EEX is actively involved in the ongoing market dialogues regarding the market-based design of control and balancing energy markets for natural gas and the German market area merger. Moreover, EEX also wishes to constructively contribute these very positive experiences to the ramp-up of the hydrogen market.

As seen from the perspective of EEX, trading of hydrogen at regulated energy exchanges will ensure non-discriminatory, open access to hydrogen and transparency on prices and trading volumes for new and existing market participants in the competition. Spot markets reflect the physical reality of the market; derivatives markets build on this and provide long-term price signals as the basis for well founded investment decisions. On freight markets, hedging of the national and international transport of hydrogen is possible. Moreover, the counterparty risk is covered through clearing of exchange-traded products. This potential of the trading markets should be used early on. **Hydrogen trading markets can support the market ramp-up right from the outset** and grow in line with the development of physical demand, supply, and transport: From regional trading at the cluster and/or valley level and admixing hydrogen to the natural gas infrastructure to a liquid European hydrogen market. Reference prices can then be developed through clusters and valleys, while trading between physically unconnected clusters/valleys can take place via corresponding products. In the framework of the **EEX Hydrogen Working Group**, EEX is involved in a close exchange with the interested market parties (generators, transport and storage facility operators, market area managers, traders, and regulators) from Germany and Europe.

Below, EEX comments on the **cornerstones of a transitional regulation for hydrogen networks**.

Comments regarding 3. Scope of application of the regulatory legislation

- a) Because of the short-term character of the necessary measures, a defined transitional regulation is appropriate in the opinion of EEX. However, it must be clarified **when this transition is concluded**. Different regulatory regimes **must not coexist** as this would distort competition, prevent networking and, as result, make the development of liquid markets significantly more difficult.

- b) Clear, reliable regulatory framework conditions offer existing and new market players planning and investment reliability and, as a result, they support the market ramp-up. These include non-discriminatory grid access, compliance with unbundling rules and **transparent, non-discriminatory, and predictable fees** for grid access and usage.
- c) Uniform market rules and responsibilities: One **central market contact point** supports the development of hydrogen trading markets right from the outset. This market contact point coordinates market access to and the operation of system services for transport customers based on uniform criteria. This provides decisive support for the development of liquid hydrogen markets. Therefore, EEX advocates the fastest possible introduction of, ideally, one market area manager – for example, at the existing market area managers or transmission system operators – for hydrogen in Germany. In future, this structure should also be reflected in the **European regulation for hydrogen**. The option of border-crossing market area managers should be available with regard to the introduction of border-crossing clusters and market areas for hydrogen.
- d) For the near future, when hydrogen networks capable of supporting liquid trading markets are not yet available, non-discriminatory access to **alternative transport solutions**, e.g. via trains, trucks, and ships, should also be possible for the market area managers or market participants provided such hydrogen transport options are available. On this basis, the market area manager can create and operate a sufficiently big and, in time, liquid hydrogen market with a sufficient number of trading participants as soon as possible. In principle, EEX considers the transport of hydrogen via a corresponding network of pipelines as being a preferable option. If alternative transport solutions are to be used, in particular, for the transport of hydrogen within Europe, these should not delay the development of the pipeline infrastructure.
- e) **Market-based system services** support the development of liquid trading markets right from the outset. Market area managers and transmission system operators throughout Europe are using the natural gas markets to buy energy for system services. This has considerably boosted the liquidity of the natural gas markets – with **positive effects on grid and transaction costs as well as market integration and security of supply**. This experience should definitely also be used for the development of hydrogen markets.
- Moreover, this also includes the following aspects:
- Provision of **IT infrastructure** for the settlement of market processes (e.g.: balancing group management, nomination management),
 - Settlement of **transport portfolios** of transport customers at market prices,
 - Admixing and removal of hydrogen to ensure a nationwide German and, with a view to the future, **Europe-wide uniform quality in hydrogen transport grids** (e.g. through the coordination of hydrogen mixing plants),
 - **Merger of existing hydrogen clusters and/or valleys** which are not mature enough for trading and competition on their own: This should be done through market-based tools (e.g. corresponding spread products) as in the case of the NCG and Gaspool market area merger. These market-based instruments also offer a promising perspective for the European market ramp-up.

- The market-based procurement of system services can, e.g., be effected through annually increasing percentage shares of admixed hydrogen (hydrogen share) in the natural gas grid which are arranged centrally by market area managers at market prices.
- f) Harmonised standards** hold the key to the development of border-crossing European hydrogen markets. This, e.g., includes the following:
- harmonised technical standards,
 - accounting and balancing rules for hydrogen networks, e.g. the settlement of hydrogen in EUR/MWh,
 - harmonised injection standards and a clear taxonomy regarding the different hydrogen production technologies.

Comments regarding 4. Financing under the position paper

- g)** EEX is of the opinion that **moderate grid fees** well as other taxes and levies are needed to facilitate the market ramp-up. Therefore, the project for funding of hydrogen networks using public funds is to be welcomed and considered appropriate by EEX.

Comments regarding 5. Unbundling under the position paper

- h) Compliance with clear and common unbundling rules** is indispensable for the development of hydrogen trading markets.

Comments regarding 6. Negotiated access and connection regime

- i)** As seen from the perspective of EEX, exceptions from grid regulation, such as e.g. negotiated grid access, should have **a short, limited term** and be exclusively applicable to existing private-sector hydrogen networks, while they should not be applicable to hydrogen networks financed through public funds.

Comments regarding 7. Cost regulation

- j)** In principle, EEX advocates **clear cost regulation**. Moreover, for a defined transition period, the requirement of non-discrimination and monitoring of this can also be sufficient.

Contact

Sirko Beidatsch
Expert Gas Markets
sirko.beidatsch@eex.com
+49 341 2156 - 223

Miriam Brandes
Political & Regulatory Affairs Officer
miriam.brandes@eex.com
+49 30 59004 242

Daniel Wragge
Director Political & Regulatory Affairs
Daniel.wragge@eex.com
+49 30 59004 240