EER RESPONSE TO ACER CONSULTATION ON "THE BRIDGE BEYOND 2025".

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The European Energy Retailers (EER), a network of national European Associations of independent energy suppliers, welcomes the opportunity to give our view of the EU gas regulatory framework and the key topics to be addressed in the mid-term.

Additionally, we highlight the role of gas in the energy transition to meet the decarbonization objectives as a backup to renewables in the generation mix and its use as a low carbon emission fuel towards a power-based energy system. All regulatory initiatives to be implemented should take into consideration this approach.

You will find our comments here below.

1. Is the proposed response set out above appropriate to address the challenges the sector faces? What should be done differently and why?

In general terms, the major issue facing gas regulation is the lack of an internal gas market in the European Union, compared to the development of the electricity market, due mainly to the following problems covered in three areas; competition, market design and infrastructures which should be tackled in the upcoming gas package:

Competition (entry barriers at wholesale and retail level)

1. In some areas, **the presence of dominant operators** which bring LNG together with the low levels of liquidity in some markets imply an entry barrier to new players since the LNG/NG wholesale purchase is more difficult.

2.**Unbundling**: An unclear distinction of activities and subsidiaries in vertically integrated groups is affecting the competitive dynamics of the retail market. The legal framework and regulation must promote the obligation of effective measures that allow the clear and non-confusing distinction between the regulated and free market activities to avoid distortions of competition and customer confusion.

Market design

1.**Cross border tariffs**: The current methodology for XB tariffs (entry-exit) makes tariffs more expensive for those countries farthest from the entry point, as is the case of Spain

where XB tariff reaches 3 €/MWh, discouraging the use of interconnection and places it in a position of disadvantage compared to the players in other countries.

2. **Liquidity of organized markets**. Liquidity at some hubs remains low relative to other European wholesale trading hubs. For instance, in Spain more than half of the liquidity in the overall Spanish market is from volume swaps at LNG terminals where no price is disclosed making this index only partially reliable. Efficient and liquid wholesale markets are essential to competition and risk management in the energy markets, and also the reliability of market signals impacts directly on the end customers.

3. Increase the **harmonization** so that all market participants are able to compete on equal conditions, especially in terms of:

- Economical guarantees to market access
- Access to LNG terminals and standardization of products.
- Tariffs methodology:
- Congestions management and anti-hoarding mechanisms.

Infrastructures:

The construction of new infrastructures should be guided by the following principles

- A detailed and transparent cost-benefit analysis should be required prior to the investment decision.
- Any transmission infrastructure investment should be subject to a competitive bid process.
- New cross-border infrastructures to guarantee gas supply should be considered exempt. Internalizing investment cost in tariffs would cause a negative impact, passing the cost on to end consumers and can ultimately cause the underutilization of such infrastructures.
- New infrastructures built to face energy transition, such as gas filling stations and ground gas storages should be developed in the basis of free competition, out of the scope of TSO and DSO regulated activities.

1.a. For monitoring the GMT metrics and prompting action, should the threshold values be set out at EU level? What should they be? Who should set these values?

All these questions have to be considered and studied, but in any case, the National particularities should be considered at the time of setting these threshold values at a European level.

1.b Should there be new principles for tariff and allowed revenue methodologies in legislation - e.g. Ensuring a level playing field between the gas and electricity sectors? What principles would be crucial?

As mentioned in section 1, cross border tariffs methodology is one of the reasons that hinder the internal gas market development. Contrary to what happened in the electricity market where interconnection tariffs were removed to promote the development of the internal

market, the current methodology makes more expensive these tariffs, increasing the spread between the different wholesale gas market prices.

2. Should the Agency develop a joint Electricity and Gas Target Model in view of sector coupling and what key features should this model have?

At least, both models should be developed and analyzed in parallel given that they are closely linked.

3. Is the proposed response set out above appropriate to address the challenges the sector faces? What should be done different and why? In particular,

The further development and market integration of power-to-gas and hydrogen is essential for the future of the gas sector in a power-based energy system. However, this development must not be taken as an opportunity to dissolve or even reverse the unbundling regulation between grid operation and other business areas that has been achieved to date. We therefore support ACER in its statement that TSO and DSO should be excluded from investments in power-to-gas projects.

It is true that no major projects have yet been developed by market players. However, power-to-gas, hydrogen and green gas have so far played a subordinate role, because their use in the energy market often encounters restrictions (e.g. recognition as a renewable energy source for heat supply, recognition as a long-term energy storage instead of devaluation due to efficiency losses in production) or is considerably disadvantaged by other regulation (e.g. levies). This must first be corrected in the legal and regulatory framework. In addition, a political decision is always required first as to the extent to which alternative gas should play a role in the future energy system and the prerequisites must be created for the development of a market for carbon-free gas. The decision as to how much power-to-gas or hydrogen is to be integrated into the gas system and when must under no circumstances be left to the TSOs or DSOs. On the other hand, the development of an own hydrogen network at an industrial site, can be implemented without regulatory requirements.

3.a Who should provide data on the availability of decarbonized gases by location so as to enable assessment of changes of gas system needs and flows, in parallel to greater availability of decarbonized gases? At what frequency this data be provided to the Agency?

These data should be provided by the NRAs to ACER on a quarterly basis.

3.b. Do TSOs face a conflict of interest in the future in planning gas and electricity infrastructure? If so, would stronger regulatory oversight resolve the problem? Which powers are needed and at which level (European, regional, national)? Would transparency requirements on TSOs/ENTSOs mitigate this problem and if yes, what shall be done?

In general terms, infrastructure projects linked to transmission activity should be carried out as merchant projects and not under regulated activities, whether in the electricity and gas sector.

The promotion of such infrastructures should be opened up to competition so that TSOs don't have any conflict of interest in their role of network operators.

Additionally, the current model of regional cooperation of TSOs, should evolve towards a single TSO at EU level. At least it should make no difference in the practical design of network access for shippers whether one or more TSOs operate the network.

4. What powers are needed for dynamic regulation to be effective?

N/A