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CONTRIBUTION

From:	General Secretariat of the Council
To:	Working Party on Energy
Subject:	Non-paper on the Polish proposal to include the Tolling model into the Gas Package provisions

In view of the TTE-Energy Council on 25 October, delegations will find in the annex the non-paper on the Polish proposal to include the Tolling model into the Gas Package provisions.

Warsaw, 19th October 2022

Non-paper on the Polish proposal to include the Tolling model into the Gas Package provisions

The ongoing revision of *the directive and regulation on common rules for the internal markets in renewable and natural gases and in hydrogen* is a necessary step for the introduction of the European hydrogen economy contributing to strengthen European competitiveness on a global market.

In order to foster a swift ramp-up of the hydrogen economy it is proposed to consider including hydrogen and decarbonised gas market package dedicated provisions on energy conversion, i.e. Power-to-X (P2X) technologies.

Electricity may well be converted and stored thanks to Power-to-X technologies to make use of surplus renewable energy and produce other energy carriers (such as hydrogen). The use of excess energy for the purposes of energy conversion offers an efficient way of storing energy and decarbonising European industries, in particular iron and steel, cement, chemicals, as well as the transport sector. Furthermore, by integrating the gas and hydrogen system with the electricity grid, P2X solutions have the potential to reduce the EU dependence on imported fossil fuels, especially from the Russian Federation.

The Tolling model is a business model for owning and operating infrastructure, i. a. for energy conversion. Gas and hydrogen networks operators should be entitled to own and operate infrastructure (electrolysers, etc.) as long as they would not be engaged in the production, trade or supply of electricity or hydrogen. Under such a scheme, a customer pays a toll for accessing the P2X facility and then, feeds electricity into the electrolyser and receives hydrogen in return. The operator will not become the owner neither of electricity or hydrogen at any phase of this process.

The electricity can be converted into another form of energy, namely hydrogen or other decarbonised gases for further use in the energy system. Power-to-Gas facilities will be operated at the interface of the electricity and gas sector. These facilities shall be recognized as sector-coupling infrastructure offering conversion of energy or decarbonised serviced based on Power-to-X technologies. Therefore, the tolling model is consistent with the assumptions of the energy system integration through the use of existing synergies and linking sectors.

The proposal stays in line with the EU principles for the energy systems such as unbundling, competitiveness, transparency, fair and non-discriminatory access to infrastructure. Services provided by gas and hydrogen network operators under this tolling model should be treated as non-transmission services in the meaning of Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas. In case of gas or hydrogen storage facility operators they will constitute ancillary services. The amount of charge would be a subject of the agreement between the customer and facility owner, respectively to the negotiated model to the hydrogen infrastructure. As the hydrogen market develops the regulatory model might be considered.

Poland believes that both gas and hydrogen operators (operating networks or storage facilities) are particularly well suited to facilitate the development of gas-based decarbonisation technologies, such as Power-to-Gas units, and to ensure that the internal energy market is maintained and further developed, both in methane and hydrogen-based economy. Nevertheless, due to the fact that the hydrogen economy is at an early stage of development yet, gas operators are better placed to access the capital necessary to invest in costly large scale electrolyzers. In this context, exclusion of gas operators from electricity conversion activities may limit the potential of growth of the hydrogen economy.

Poland would like to suggest the following legal amendments in the draft directive:

- Recitals

Commission's proposal	Amendment
[...]	[...] new (100a) To enable and foster decarbonisation, regardless of their unbundling models, TSOs and HNOs are also well placed to invest in decarbonisation technologies and innovate projects enabling sectors integration, such as power-to-gas. To deliver these services at a reasonable cost and in a timely manner, TSOs and HNOs should be allowed to invest in these technologies. The compensation for such services may - where applicable – happen under a tolling arrangement, in which a customer pays a toll to – in the case of power-to-gas – feed electricity into the facility and receive hydrogen (or synthetic gas if a methanation step is added to the process) in return. The facility owner would only provide a service and would not engage in trading or supplying those commodities. In order to accelerate decarbonisation new technologies need to be tested, scaled-up and implemented swiftly. In this context, TSOs and HNOs can add significant value using existing resources and experience regarding market design and functioning (know-how, companies already active that could diversify quicker than a newly established company). This sharing of the investment risks between the users and the operator via a tolling model will allow smaller market participants to enter the considered new market.

- Article 2 – Definitions

Commission's proposal	Amendment
For the purposes of this Directive, the following definitions apply:	For the purposes of this Directive, the following definitions apply:

[...]	[...] new (30a) 'tolling model' means a business model where a user gains access to use a facility and pays a tolling fee to the facility owner or operator;
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- Article 35 – Tasks of transmission, storage or LNG system operators

Commission's proposal	Amendment
[...]	[...] new 11. Each Transmission System Operator shall be entitled to engage in activities related to energy conversion using a tolling model. 12. Each Storage System Operator shall be entitled to engage in activities related to energy conversion, using a tolling model.

- Article 40 – Tasks of distribution system operators

Commission's proposal	Amendment
[...]	[...] new 3. Each Distribution System Operator shall be entitled to engage in activities related to energy conversion using a tolling model.

- Article 46 – Tasks of hydrogen network, storage and terminal operators

Commission's proposal	Amendment
[...]	[...] new 4. Each Hydrogen Network Operator shall be entitled to engage in activities related to energy conversion using a tolling model.