Cross-subsidization between energy carriers needs to be avoided

Energy Traders Europe welcome the opportunity to comment on the proposed concept of Gas Shipper Obligations (GSOs) to support the development of hydrogen production. While we recognize that some forms of financial aid may be needed for the nascent production technologies and that it is explicitly allowed under the Energy Act, we believe that attempts to charge these costs onto the gas sector will have far reaching negative consequences for the British economy.

Key messages

1. Cross-subsidization between gas and hydrogen will be distortive to the market and will generate considerable additional costs to gas consumers.
2. Inflated costs of gas consumption will reduce throughput, placing an upward pressure on transmission tariffs, increasing consumption costs further and potentially crowding out biomethane uptake.
3. Under no circumstances should a levy supporting domestic hydrogen sector be charged at cross-border interconnection points (IPs).

We begin by stressing that levies charged on the gas sector for the benefit of hydrogen production should not be treated at par with levies supporting renewable electricity and gas uptake. Unlike biomethane, hydrogen molecules are not a perfect substitute for methane and require different infrastructure and appliances. This means that any levy charged on gas shippers for the benefit of hydrogen will be a clear-cut example of cross-subsidization that will place additional burden on gas consumers without offering them any outright benefits in exchange. The distortive impact on the gas sector will be further amplified by the implied ability to adjust the size of the levy ex-post, making it impossible to forecast and manage by the network users.

In addition, we note that the pressure to switch to hydrogen stemming from the proposed GSOs is unlikely to translate into enhanced decarbonization. Fuel switching will not be possible in most locations for years to come, while the levy will have an immediate negative effect on gas network utilization and gas consumption. In both cases, the levy will act to the detriment of biomethane, regardless of whether it is included in the related cost distribution or not. Unlike renewable hydrogen, biomethane production technologies are readily available and can support decarbonization already today. The proposed GSOs will prioritize the uptake of hydrogen instead, distorting competition between technologies that could equally be used to decarbonize the British energy mix.

We also stress that interconnectors should be explicitly excluded from any levy calculation both now and in the future. Any attempts to finance subsidies through introducing additional charges at cross-border points would have significant consequences to gas trading and security of supply more broadly. A levy charged at IPs would go against the spirit of Trade and Cooperation agreement, negatively affecting trade relations with the EU and weighing heavily on the commercial viability of IUK and BBL. Being an outright barrier to trade, a levy charged at interconnection points would inadvertently damage the liquidity of the NBP and move it further away from the rest of Europe.

Finally, we note that the intended support for hydrogen production is bound to be reliant on assumptions towards future demand for this fuel. Any miscalculation in this field may have grave consequences for the competitiveness of the economy and a lasting negative impact on the gas sector in the UK, which is among the most developed in the world. We therefore urge the authorities to reconsider the way through which the establishment of a hydrogen sector could be supported.

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