BP PLC
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Hydrogen and Gas Market Decarbonisation Package:
European Gas Directive & European Gas Regulation

bp welcomes the European Commission's proposals to expand the European gas market rules and provide a framework to enable the development of an internal hydrogen market and facilitate the decarbonisation of Europe's gas markets as this will enable the accelerated uptake of hydrogen and other low carbon gases.

Whilst we recognise the near-term imperative around security of gas supply brought about by recent exceptional events, this needs to be coupled with the long-term imperative of reducing GHG emissions. Within this context, the hydrogen and gas markets decarbonisation package must set the long-term direction needed to support Europe's energy transition with gaseous energy; setting this direction is essential in order to facilitate the necessary investments in decarbonised gases.

In our response below, we highlight several key areas where we believe the proposals would benefit from further consideration and clarification.

Hydrogen

bp believes that hydrogen will have a critical role to play in delivering Europe's climate ambitions. Supportive regulatory regimes and transitional policy incentives are key to encourage hydrogen production and consumption and should supplement already existing mechanisms. Targets and incentives for renewable hydrogen have been proposed as part of the recent revision of the Renewable Energy Directive; we are keen to see targets and incentives to underpin demand across transport and industry for low carbon hydrogen produced by any technology that deliver the required reduction in carbon intensity. We support the proposals that enable modest blending of hydrogen into the gas network.

We would emphasise that the policies and incentives introduced to support hydrogen should be technology neutral to allow rapid adoption of technologies that can expedite the transition to hydrogen; reducing the carbon intensity of energy should be the primary goal. Furthermore, a technology neutral policy would allow new technologies to be adopted as they emerge.

Natural gas

It is important to note that while hydrogen will be essential for the energy transition, natural gas nonetheless has a key role to play in getting the world to net zero complementing renewable energy sources, and reducing emissions, and providing better air quality when displacing coal in the power sector. To meet

the EU's climate ambitions, the production, supply and use of natural gas must be decarbonised as fully and quickly as is practical.

- Renewable gas – biogas/biomethane created from sustainable biomass, such as organic wastes – has an increasingly important contribution to make, especially if combined with CCS (BECCS).
- Natural gas can be a source of low carbon energy when combined with carbon capture use and storage (CCUS), either as a direct source of energy to the power and industrial sectors or to produce CCUS-enabled low carbon hydrogen.
- Existing gas infrastructure can enhance the timely shift to decarbonised and renewable gases as it can in some cases be repurposed at a relatively low cost compared to building new infrastructure, e.g. to transport hydrogen or to transport captured CO2.
- New gas infrastructure and equipment should be CCUS or hydrogen-compatible or ready to avoid lock-in of unabated gas.

It is possible that there will be some services which continue to rely on gas as they transition to hydrogen, in those cases consideration may need to be given to how any of those services that are essential can continue to be supported.

Definitions, certification, guarantees of origin

One measure that would greatly facilitate the application of low carbon gases to the decarbonisation challenge would be to separate the environmental characteristics from the underlying physical commodity.

- This could allow the environmental properties of renewable and low carbon gases to be traded separately from the physical commodity, much as is seen in power markets. Allowing trading based on the environmental properties of renewable/low-carbon gases means that the environmental benefits can reach further into the market than physical infrastructure permits in the short-term, thereby enabling early participation of a greater number of actors in decarbonised gases. Enabling greater participation in the low carbon and renewable gases market will create a clear price signal that can stimulate investment in supply and so accelerate the transition.

The environmental characteristics of gases needs to be set out in clear definitions, certifications and guarantees of origin.

- There needs to be greater clarity on the roles of and relationships between guarantees of origin, certification and carbon intensity for renewable and low carbon gases, and how the measures in the hydrogen and gas markets decarbonisation package relate to those in the Renewable Energy Directive. The basis of a certification scheme could primarily be the carbon

intensity of the gases, rather than the method of production, which would allow for a range of technologies to contribute to the decarbonisation challenge.

- As part of developing a regionally and globally connected and trusted hydrogen economy there needs to be well designed policies and regulations that facilitate import/export of hydrogen. Again, this will rely on clearly defined certificates and guarantees of origin. This will include the need to recognise certificates for gases imported from outside the European Union.
- The establishment of a methodology for assessing greenhouse gas savings from low carbon gases needs to be prioritised and set out much sooner than is currently proposed in a delegated act at end 2024, or the opportunity for early investment will be lost.

Infrastructure

In order to accelerate the uptake of hydrogen and rapidly develop a hydrogen market, it is essential that hydrogen infrastructure be developed as quickly as possible.

- Funding of the development of hydrogen infrastructure is complex. In general, mature markets should be structured to promote competitive behaviours and value for consumers. On the other hand, nascent markets such as hydrogen may need support to get established and, in such cases, it may be appropriate to have limited, temporary changes that enable the rapid development of the market. Such changes could encourage investment and accelerate the transition, and normal competition could be introduced as the market approaches maturity.
- If tariffs on the gas market are used to fund the development of hydrogen infrastructure, then these should create a level playing field where the costs are distributed fairly and appropriately between active shippers on the gas network.
- We support third party access (TPA) to hydrogen infrastructure as this will help to grow the hydrogen market by connecting supply with demand.

Carbon Capture, Storage and Transportation

Despite the critical role that it is expected to have in supporting the EU's climate ambitions, we note that there is not yet a clear plan for infrastructure and regulations supporting the development of carbon capture use and storage and the transportation of captured carbon dioxide; such infrastructure and regulations will be necessary to allow carbon capture technologies to be developed and play their part in helping decarbonise the European energy system. Policies and plans for carbon capture and the transportation of captured carbon dioxide need to be brought forward by the European Commission.