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Towards an EU Traded Market in Biomethane – A Traders' View on the Regulation

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STRUCTURE

- 1. Market dynamics**
- 2. Regulatory overview**
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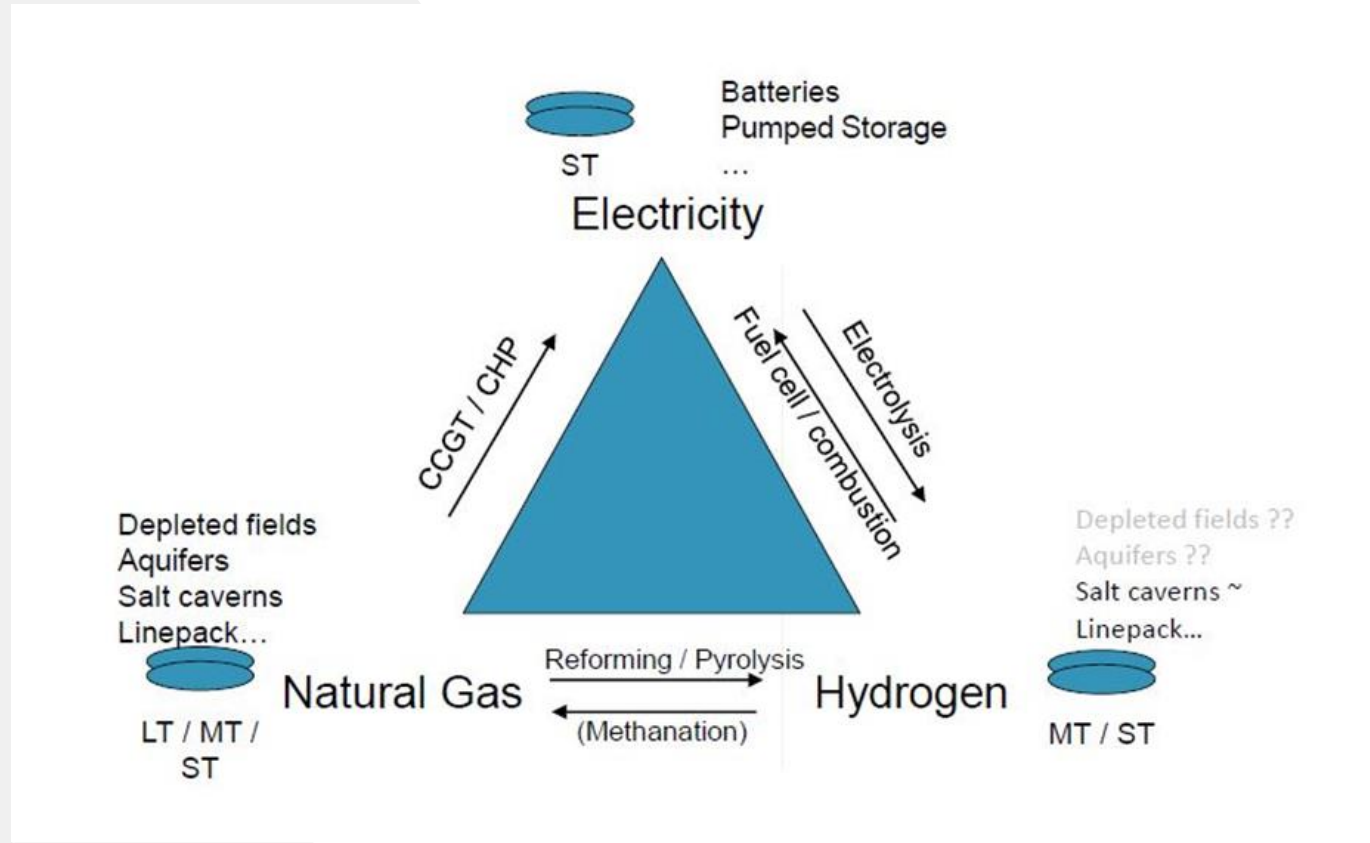
The background of the slide is a photograph of the European Union flag, which is a blue field with twelve five-pointed gold stars arranged in a circle. The flag is waving and is set against a blurred background of a modern building with a glass facade. A white semi-transparent box is overlaid on the top left of the image, containing the main title and subtitle.

1. Market dynamics

Kickstarting a traded market in biomethane

1. Market dynamics

- BioCH4 as alternative to NG is a pillar of **sector coupling** – along with scale-up of P2G + low-carbon H2
- BioCH4 as blending gas + use of bioCH4 in sectors (e.g., transport) offer **longer-horizon perspective to gas and existing gas infrastructure**



Graphic by Doug Wood, EFET Gas Committee Chair, Madrid Forum, 12 May 2022

1. Market dynamics

- BioCH₄ as a means to a decentralized energy system – and one possibly more flexible to stress incidents – if **markets are established properly**
- **Spot market**: Markets in bioCH₄ (and H₂) will **closely relate to NG and electricity markets** needing physical balance or optimization
- **Pricing interactions** will be based on newly emerging products and spreads → a **single system** to be optimized amongst traders

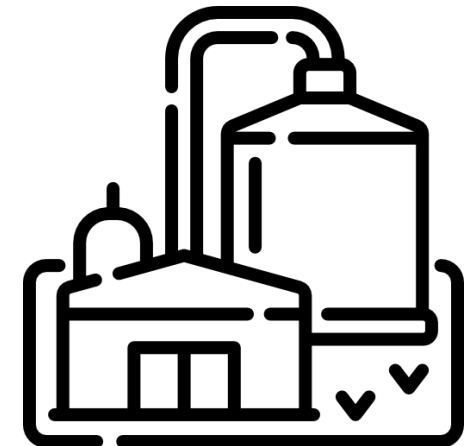
REPowerEU Plan

35 BCM bioCH₄ production by 2030

= 10% of today's NG production

2X the target of Fit for 55

= 20% of EU gas imports from Russia



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2. Regulatory overview

Secondary legislation and non-legislative acts

Nexus of secondary legislation and non legislative acts

Renewable Energy Directive (RED II)

Implementing Act for voluntary schemes (transport sector)

Delegated Act on on renewable liquid and gaseous transport fuels of non-biological origin and Delegated Act on GHG methodology on greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuels (transport sector)

EU Commission proposal for revision of RED II

Extension of Implementing and Delegated Acts to all end uses of gas under RED III

Gas Package (article 8 of Directive and article 16 of Regulation)

Special rules for biogas under the EU ETS Monitoring and Reporting Regulation (Guidance Document 1)

2. Regulatory overview

Definitions [art. 2 of proposed Gas Directive + art. 2.28 of RED II]

Physical product
addressed

Means of production for
tradability of instruments
ill-addressed

- Definition of low-carbon gases based on **70% GHG emissions reduction threshold** – unclear if **decarbonized bioCH₄** can be considered low-carbon instead of renewable
- Definition of **distribution systems** should include flow into other distribution or transportation systems given requirements for bidirectionality and **possible flow of bioCH₄ into transmission systems**

2. Regulatory overview

Certification [art. 8 of proposed Gas Directive + art. 25-30 of RED II + RED II Implementing Act for voluntary schemes]

- **Trade in bioCH₄ and its environmental attributes** should not be affected by revisions of art. 31a of the proposed RED III for the purpose of serving the renewable accounting target of MS
- The EC proposal may create this risk through the provision on **cancellation of GoOs before registration of the consignment of bioCH₄ in the Union database**

2. Regulatory overview

Certification [art. 8 of proposed Gas Directive + art. 25-30 of RED II + RED II Implementing Act for voluntary schemes]

Key considerations

- The **matching period for injections and withdrawals** needs to be relaxed to encourage **liquidity and investment**
- The **operational design** of the UDB needs to facilitate broader **commercial activity**
- Interaction of commercial producers and consumers **and intermediates** needs to be foreseen from the simplest to the more elaborate cases (e.g., aggregation systems etc.)
- Clarity is needed on **separate tradability of bioCH₄** from its sustainability and GHG emissions information
- Bundling of a certificate (even if GoO embedded in PoS) per MWh, or per batch of MWh, risks treating **de-commoditizing the market**

2. Regulatory overview

Incentives [art. 16 of proposed Gas Regulation + art. 25-30 of RED II + RED II Implementing Act for voluntary schemes]

- **Separate tradability** of certificates from the underlying commodity would render redundant the proposed **tariff discounts at IPs** subject to registration of transactions in bioCH₄ into the UDB
- Discounts not suited to incentivize penetration of biomethane and disregard **cost-reflectivity of systems**
- **Carbon pricing** is better suited to address a prospective cost disadvantage of emerging bioCH₄ technologies over mature ones
- The **ITC mechanism** proposed to correct the distortions by the application of the discounts would represent a **loss of sovereignty over revenue recovery and tariff setting** that has previously been at MS level

2. Regulatory overview

ETS aspects [art. 39 of the EU ETS MRR on zero-rating of bioCH4 emissions]

- BioCH4 purchases may be aimed at offsetting/ reducing **scope 2** emissions under the **GHGP – review of reporting guidance** may negatively impact GoO-based green products for gas and power
- Trade in bioCH4 may also relate to the reduction of **reportable emissions under the EU ETS**
- Validation of an emitter's acquisition of certificates should recognize **the carbon abatement value of bioCH4 under the EU ETS MRR**
- This value will help determine **the net obligation of an emitter to purchase EUAs**
- The forthcoming MRR Guidance should treat the **interconnected grid** as one **single mass balancing system**, and **off-grid bioCH4 systems as separate mass balancing systems**
- It should also reflect the **optimization of the gas grid** – with bioCH4 re-delivered to the closest consumer

The background of the slide is a photograph of an industrial facility. It features several large, white, spherical storage tanks supported by metal structures. A network of red pipes and white walkways is visible, crisscrossing the scene. The sky is a clear, bright blue.

3. Conclusions

Incentivizing bioCH₄ expansion through markets

3. Conclusions

- **Contractual standardization + rules that do not constrain cross-border trade** are needed to achieve the even more ambitious bioCH₄ production targets for 2030
- The proposed legislation must enable this **via a better connection of RED III, and associated implementing texts, and the Gas Package**
- It will also have to reflect **learnings from gas – e.g., VTPs + consideration of intermediation**
- **Maximum commonality** of certificates should thus be ensured for a **single instrument to help markets to eventually converge**
- **Transparent and robust price signals** from **well-functioning markets** will support **efficient resource allocation** and medium-term **investment in bioCH₄**
- **Separate tradability** of environmental characteristics from the underlying physical commodity + **national support schemes that do not hinder cross-border trading** will ensure **liquidity + price transparency**

THANK YOU FOR YOUR ATTENTION

MORE INFORMATION



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