Eurogas draft response to consultation on the Inception Impact assessment related to the delegated act on taxonomy

Objectives of the Taxonomy

Eurogas is happy to provide views on the Commission's inception impact assessment (IIA) related to the drafting of the first delegated act on taxonomy. We believe that this exercise will be key in developing a comprehensive taxonomy to be applied in Europe. **Eurogas and its members are committed to providing the necessary gaseous solutions to fulfil the EU's 2030 and 2050 objectives**.

Investments will be key in relaunching the economy in the wake of the COVID-19 crisis. Throughout its commitment to supporting the economy and consumers through these difficult times, Eurogas remains convinced that policies should remain geared towards the achievement of the EU's ambitious 2030 and 2050 objectives notably that of **climate neutrality.**

The economic recovery in Europe will require swift unlocking of public and private investment. For this reason, we see great value in setting up a framework for sustainable investment capable of providing clarity and certainty as to ensure that **the objectives of the Energy Union are upheld through both its social and economic dimension**. To this end the IIA already underlines that a coherent definition will help ensure stable investment and feed the objectives of the green deal, which Eurogas supports. That being said, we wish to strongly underline that the future **definition of the Technical Screening Criteria (TSC) in the Taxonomy Regulation will play a key role in ensuring energy investments; a sector that has been identified as a crucial one to support and restart the economy of Europe.**

Scope of the delegated act

The first delegated act covered by this IIA seeks to focus on defining the mitigation and adaptation activities. We believe these categories should consider all existing technologies and solutions that can contribute to a **gradual and robust greening of the EU economy** and see a crucial role to be played by **gas, both natural, renewable and decarbonised, and their related infrastructures**.

In addition, we wish to underline that **a crucial category has been introduced with the Taxonomy Regulation**, namely that of **transitional activities** as set forth in article 10.1 of the political agreement. This category remains undefined for now but will have a significant impact in the near to mid-term implementation of the taxonomy. Providing **EU level guidance while allowing Member States the necessary flexibility to build a pathway that is compatible with their energy mix and National Climate and Energy National Plans will ensure both security of supply and cost-efficiency**. An important step in this direction in our view would be to envisage, also for transitional activities, the use of a broad set of "complementary emissions reduction activity" to mitigate their emissions profile, with an approach similar to that suggested by the Technical Expert Group with regards to hydropower (P.209 of the TEG report). This, in addition to a portfolio approach for the economic activities, including an **evaluation of activities reflecting their contribution towards the improvement of sustainability profiles in other sectors,** would provide a coherent adaptation metric by which to assess activities.

We note the ambition of publishing a **second delegated act by mid-2021 to tackle the question of disclosure of information** and want to underline the importance of **making sure the implementing delays are realistic**. Here, the aim would be to ensure adequate information for private investors to guarantee the necessary data is available for due diligence purposes. In this regard a solid and structured dialogue between stakeholders will help ensure best practices in use and to develop a shared understanding of what would be required for the framework so as to facilitate its smooth implementation.

The IIA outlines that the reason for EU legislative involvement stems from the need to ensure cross-border applicability, in line with the ambition expressed by the green deal and the TEG to develop a system that could apply globally, even outside EU borders. As expressed in the IIA, the aim would also be to **ensure traceability and tradability** across borders. For the latter point, **we would urge the Commission to ensure that all relevant initiatives** seeking to integrate the internal market to facilitate the faster rollout of renewable and decarbonised gas projects, are considered, notably **Guarantees of Origin under the Renewable Energy Directive and certification schemes**.

As the document clearly points out, the **sole aim** of the targeted delegated act, to be developed by the end of 2020, is to **develop clear technical screening criteria** for mitigation and adaptation activities taking into account recommendations from the TEG. As the report has captured our full attention and represents a significant achievement in mapping a series of activities which the taxonomy should cover, and whilst the range of criterion it suggests is impressive, we **would strongly support ensuring that a set of appropriate aspects are included in developing the TSCs, some of which have not been considered in the TEG report**. In this context, we would also suggest ensuring that the delegated act avoids a detrimental and dichotomous approach to the transition of the energy system opposing electrons and molecules. In practice, we believe the **retrofit of existing assets should also be taxonomy eligible** when a substantial improvement can be demonstrated in the field of energy efficiency/environment and/or climate performance of the asset, for example the improvement provided by a coal to gas switch. In addition, we believe that only through the **blending of increasing levels of renewable and decarbonised molecules** in the gas grid, as a pillar supporting sector integration and the energy union objectives, will the 2050 objective of climate neutrality be achieved in a cost-efficient manner. This will only be achievable through a clear and stable regulatory framework the ground for which we analyse below.

Coherence with existing legislation

As the Commission rightly underlines the "*initiative will need to be developed in accordance with the Taxonomy Regulation, in particular with the principles in Article 14, including **the requirement to assess the alignment of the technical screening criteria with existing EU legislation***". This assessment is crucial to **ensure coherence** in policy, particularly with large swathes of the clean energy package still being implemented related to GHG reduction requirements in the **renewable energy directive, or renovation requirements in the Energy Performance of Buildings Directive (EPBD) or Energy Efficiency Directive (EED)**. Similar issues can be noted regarding mobility aspects, where we believe a large spectrum of technologies, **including renewable and decarbonised gas production units, gas heating, gas mobility or gas -fired power plants,** must be considered for climate neutrality to be achieved in 2050. The Commission underlines that the aim of the act is to increase the availability *"of harmonised information available to investors and businesses. The **Delegated Act will provide technical details on the conditions and granular performance thresholds that an economic activity needs to meet to be considered environmentally sustainable.** It is expected to help companies and investors to identify which activities are already substantially contributing to climate change mitigation and adaptation for the sectors covered so far."* Whilst the aim is commendable, and that clear signals to orient investments would benefit the market, we would also underline the fact that an “**unfit” taxonomy or wrong thresholds could overlook the technologies which already today make a large contribution to climate change mitigation**, or currently help adapting the system through flexibility such as gas to power. Such activities **help increase the overall amount of renewable power which can be injected, an element which doesn’t currently seem to be taken into account** and should, in our view, be included in the reflection surrounding the definition of the Technical Screening Criteria.

Furthermore, we believe that **due consideration should be given to renewable and decarbonised gas**. As the energy transition will see different solution being preferred in different sectors, and that large sectors such as energy intensive industries rely on molecules for their processes, their energy supply should gradually be decarbonised. Some solutions are already outlined in the renewable energy directive, which is currently being implemented. A **taxonomy proposal should be in line with RED II** and avoid at all cost to go further than what is currently being implemented. Hence, the taxonomy should align with **the upcoming delegated acts, tasked with identifying all biomethane sources that can comply with the emission thresholds and that are RED II-compliant.** In this context, and as the directive supports the development of biomethane and hydrogen from electrolysis, we also underline the **key importance of allowing infrastructure development to continue where it is needed**. Indeed, gas or electricity infrastructure, are only as renewable as the electrons or molecules flowing through it, hence would benefit from a technology neutral approach. As such the **connection of renewable and decarbonised gas production sites** should be incentivised, and labelled as sustainable, and the **switch from coal and oil to gas should be incentivised, with gas network expansion allowed thereby enabling the overall system to adapt and transition whilst reducing GHG emissions in a cost-effective way**. Only through a comprehensive approach, tackling the impact of evolving consumption patterns, will a financial tool such as the taxonomy offer the necessary signals to ensure a safe and stable decarbonised energy system

Compatibility with Better regulation objectives

When looking at likely **economic impact**, the main one being **access to finance**, ensuring compatibility of the taxonomy with existing EU legislation, also goes through a coherent approach with parallel policies. This doesn’t seem to be the case considering the **discrepancy between the stated ambition of the TEG to define a threshold of 100grCO2eq/KWh for all energy related activities as opposed to the EIB’s 250 grCO2eq/KWh** threshold averaged over the lifetime and some other sector specific references for new investments, either under implementation phase (**350-550 gr CO2/kWh** as per the most recent **EU Regulation on the Internal Market for Electricity**), or soon to be reviewed such as the Industrial Emissions Directive.

Eurogas believes that the definition and implementation of different thresholds with different timeframes for public and private investment would send the wrong signal and ultimately create uncertainties during the relaunch of the economic activities starting from the Best Available Technologies. Additionally, the Taxonomy should incentivise capital to flow to more sustainable **and transitional activities**. The latter should allow for progressive reduction of GHG emissions over time, notably through the blending of **renewable and decarbonised gas over the economic lifetime of the project.** Such an approach would be more in line with the Energy Union objectives an ensure a more secure and affordable transition for end-users. A more comprehensive approach like the one outlined above, would indeed also help deal with likely **social impacts**. In the IIA the Commission considers that the delegated act "*will help delivering a healthier and more climate-resilient living environment"* and that the transition in required job skills *"could result in social impacts, for instance, by affecting employment in transitioning sectors. The taxonomy might accelerate the transition of certain sectors and therefore contribute indirectly to social impacts of the transition."* Here we want to ensure **that due account has been taken of the impact** which a shift in investment patterns **could have both on the employment aspect, and on the reskilling** of people who may previously have worked in industries no longer considered "sustainable", **but also on access to energy and affordability.** Here, while investments may target certain technologies and production pathways for their sustainable nature, account should be given, not as a substitute but in parallel, to the **cost of production and possible necessary system reinforcements thereby impacting the final cost of energy**. The energy union objectives ensure that affordability is duly considered alongside security of supply and sustainability; we believe this should continue to be the case.

Regarding likely **environmental impact**, we agree with the Commission that a well-defined and well-designed delegated act would favour positive environmental impact from increase investment in renewable technologies. That being said, **if the scope were to be defined in a narrow way without due consideration for systemic needs and flexibility requirements stemming from the intermittency of renewable power production, the effect could be the opposite**. Whilst a euro invested in a type of technology does take into account the end product of the process which is being invested in, it currently does not propose to include consideration for either the required investment within the system to accommodate the additional production, nor does it take into account fully (although adaptation seem to hint at it) the **contribution which certain technologies can make in facilitating the injection/integration of additional renewable production**. In line with the law of diminishing return, a closed energy system would reach a peak, and without reinforcements of the grid which carries cost, any additional unit may have lower or overall negative impact on the system, if not considered in a broader perspective of system stability. This consideration **should be included in the TSC** which would be applied in awarding the label which investors use to guide their investments, as investors may not be expected to assess the technical nature of the energy system.

Furthermore, Eurogas believes that regarding **administrative burden and the better regulation**, the Commission should take due account of the future delegated acts which will regulate the disclosure of information from companies. This **future delegated act** should provide a pragmatic approach to ensure the significant amount of data required for improved data availability, building on the best practices already available (i.e. Global Reporting Initiatives) to be given **a realistic implementation timeline**.

Next steps

Regarding next steps and the timeline, Eurogas looks forward to reading the draft delegated act and discussing it with the Commissions' services. We would strongly encourage the **need to involve, inter alia, DG ENER among the DGs in the consultative process** of inter-service discussions in addition to the JRC and others. We believe that this way, **full consideration of the "system" impact** of a harmonised labelling system would be considered. In addition, we note that the Sustainable Finance platform is not included in the considered stakeholder groups to work on the delegated act. We believe once set up, the **platform should be a key stakeholder in taking over the current work of the TEG** and should **guarantee technology neutrality** through the inclusion of a variety of stakeholders.

We **welcome the fact that further consultation is expected on the draft delegated act and sustainable finance strategy**. Indeed, this is a welcome message as the consultation process of the TEG, which has indeed consulted in several fora over the past two years, openly pointed to the fact that feedback may not be incorporated in the drafting and that the aim of the group was openly that of electrifying its way to the EU's 2050 climate change objectives rather than also paving the way for a cost-efficient approach that ensures security of supply.

While we understand the need for increased electrification to achieve the 2050 objectives**, we strongly believe that this can only be guaranteed through a secure and affordable energy system for citizens, with key contribution from natural, renewable and decarbonised gases through a stepwise process.** To ensure this, further consultation should be conducted along with the setting up of a sustainable finance platform which would bring experts from all categories covered by the TEG report, but also of the sub-categories which, for many, were not represented in the TEG's work.

In addition, **Eurogas would oppose the exclusion of activities which are in the process of starting their transition**. We call for the Commission to take into account the far-ranging impact which the addition of, inter alia, a so-called brown criterion could have for transitioning activities, on both their own sector and interlinked activities, notably with regards to the affordability, security and sustainability of the transition towards climate neutrality, as a whole.

Finally, we welcome the position of the Commission to propose additional guidance if required in the next steps. Eurogas and its experts will remain available to discuss the TEG recommendations and delegated act work ahead in a bid to **ensure a solid and easy to implement proposal can be rolled out in the near term to ensure the required coal to gas switch, the increased electrification of the energy system, with the increased uptake of renewable and decarbonised gas in the technological solutions underpinning the stability and safety of our energy system**.