

## JOINT LETTER ON THE IMPLEMENTATION TIMELINE AND OPERATIONAL DESIGN OF THE UNION DATABASE

### To the attention of:

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The co-signatory organisations wish to **raise serious concerns about the operational design and launch planning of the Union Database (UDB)** for tracing gaseous and liquid transport fuels, under the recast Renewable Energy Directive (RED II) and the associated Implementing Act for voluntary schemes<sup>1</sup>. We represent the industries of renewable gaseous fuels, including producers, transmission operators, suppliers and traders. On a general note, we welcome the objective of the UDB to facilitate cross-border trade and enhance liquidity in a pan-European renewable and low-carbon gas market. However, pending operational design issues should not adversely impact separate tradability of certificates from the underlying commodity, and system integrity. We are also concerned over the general lack of information and due notification to gas market participants, so that they are sufficiently prepared ahead of the launch of the UDB. This altogether makes the implementation plan of the UDB unrealistic and risks causing uncertainty and barriers in kick-starting a market in renewable and low-carbon gases.

### General remarks

Our associations fully recognise the legal obligation introduced by the RED II and support the objectives of the European Commission to bring to the market instruments which will facilitate the achievement of the Fit-For-55 objectives, with minimum administrative burden and without hurting underlying commodity markets.

We welcome efforts by DG ENER to set up the UDB. If set up properly, it would ensure:

- that any verification of transfer of gas volumes from one Member State (MS) to another is rendered unnecessary i.e. the UDB does not need to record it;
- that quantities of gas with sustainability certificates attached to them that enter the EU interconnected gas system, legally considered as a single mass balancing system<sup>2</sup>, equal the quantities exiting this system.

Therefore, separate tradability would be achieved because, once molecules remain within the same single mass balancing system, it is no longer important to track the exact molecules to which a given certificate is attached. In such a system, the risk of double counting of data corresponding to a transaction, which is currently borne by individual companies under certain business processes, would also be eliminated. Consequently, if set up properly, such tool can have a positive impact on the monitoring and development of a market in renewable and low-carbon gases for the achievement of the renewable target accounting of Member States.

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<sup>1</sup> COMMISSION IMPLEMENTING REGULATION (EU) 2022/996, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0996&from=EN>

<sup>2</sup> Recital 5 and article 2 (18) and (19) of the Implementing Act for voluntary schemes and article 8 of the proposed recast Gas Directive.

In realising the need to fulfil the EC's legal mandate under RED II, we consider that principles governing the operational design of the UDB need to be further deliberated with the market. This is to ensure that a full-fledged UDB acts purely as a traceability system and does not pose barriers to liquidity and trading across borders of gas molecules once the latter enter the Union-wide single mass-balancing system. As it stands, we are concerned that the current design is likely to lead to such barriers.

### **Open issues**

In a context of transparency, we stress that the **implementation timeline of the UDB** still has to be formally communicated to the market (including through the UDB wiki-page), even though it outlines already expired, and nearly expiring, deadlines for registration of gas market participants and system operators on the UDB, with the support of voluntary schemes.

The implementation timeline foresees initial stock registration for the gaseous value chain by April 2023. To close the stock in a mass balancing period, economic operators will have to act much earlier than that. Registration of transactions in gaseous fuels is subsequently due as of June 2023, although it is unclear what the indication "*system exchange only*" in the implementation plan implies. This further underlines the issue of deficient technical guidance that still has to be provided to economic operators. Economic operators still have to be sufficiently informed of their upcoming responsibilities, while having to cope with challenging timelines – especially off-grid suppliers and non-certified suppliers within national schemes.

The timeline appears even more challenging as **several questions regarding the operational design of the UDB still remain in February 2023:**

- a. The possibility to trade gas separately from certificates through a mass balance system which does not track intermediate transactions either re-traded bilaterally and via platforms.
- b. The interaction between the UDB and national databases, as foreseen in the draft Article 31a of the proposed RED III. As noted by the ISCC in January 2023: "*The integration of Member States' databases is still in its infancy. Without such integration EOs may have to process the same biofuel batch in at least two databases*"<sup>3</sup>. This is a major issue as it could lead to double counting, which is against the exact intent of having a Union Database. The co-signatories highlight that a clear link between the UDB and national databases represent a major point of interest for Member States as seen in the RED III inter-institutional negotiations<sup>4</sup>. In addition, automated transfer of data by economic operators should be ensured, as manual UDB insertions would cause additional burden related to human resources and risks of errors.
- c. The consideration of permutations ranging from bilateral arrangements to elaborate commercial structures involving intermediation, in terms of the role of parties in the gaseous value chain.
- d. The inclusion of off-grid gas suppliers and non-certified suppliers (using national schemes) which, if eventually onboarded, would need minimum administrative burden via simple interfaces, guidelines, information and training.

Consequently, the co-signatories are concerned about the **impact that the launch of the UDB could have on trade, for the purpose of counting towards national renewable fuels quotas, other targets and obligations, as well as on broader market development**. This is further emphasised by the currently fragmented EU regulatory framework relating to:

- The amended rules of the Monitoring and Reporting Regulation (MRR), in force as of this year with an uncertain link to the UDB.
- The draft RED III and the Hydrogen and Gas Markets Decarbonisation Package.

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<sup>3</sup> Source: <https://www.iscc-system.org/process/union-database/>.

<sup>4</sup> [RED III Council General Approach, June 2022 and adopted EP ITRE amendments \(first reading\) on the proposal for a Directive amending RED II](#).

- The uncertain adoption horizon of the Implementing Act laying down the UDB provisions for all end-uses of all renewable and low carbon gases, including biomethane and hydrogen.

**Overall, the operation of the UDB is currently associated with a rather fragmented regulatory landscape in terms of adopted and proposed EU legislation. It appears to require more development time and would benefit from clarifications regarding some of the basic elements of its design<sup>5</sup>. A lack of clarification on basic design choices amplified by a hasty timeline will hinder the deployment of biomethane and hydrogen in the EU, hindering the achievement of the Fit-For-55 and REPowerEU ambitions. Moreover, regulatory uncertainty negatively impacts efforts to contractually standardise trades. The latter will ensure that robust price signals incentivise efficient resource allocation and long-term investments in biomethane and hydrogen.**

### **Recommendations**

1. **Resume regular focus groups** with gas market participants, system operators, voluntary schemes and GO registries on **pending operational design issues of the UDB**, to ensure and clarify:
  - The interaction between national databases and the UDB.
  - Separate trading of commodities and their climate values.
  - The link between national mass balancing and GO schemes and the UDB.
  - The precise obligations of economic operators active in different segments of the gaseous value chain.

Consultation with the market should equally extend to the subsequent integration of GOs and PoS certificates and whether this will ultimately lead to a “GO+” solution under a book-and-claim system, or a “PoS+” solution under a mass balance system, or to two different certificates which must be cancelled for the same quantity of renewable gas (i.e. biomethane, synthetic gas, or hydrogen) withdrawn. The industry underlines the role that could be played by a Guarantee of Origin complemented by the sustainability attribute of a sustainability certificate. GO integration should also ensure that secondary trading outside the UDB is not forbidden.
2. **Adjust the proposed timeline to set 2023** (at least) as a **testing year** for all fuels. This timeline should be shared as soon as possible with all stakeholders to ensure adequate preparation and to other policymakers to avoid mismatch within the EU policy framework.
3. **Reassure market participants** that the **launch of the Union Database** will occur only when it has proven fully functional based on the following conditions:
  - The UDB and national databases are interconnected and transfer of information between national databases is effective and reliable in real-time.
  - Tests by market participants and Voluntary Schemes have shown that the UDB actually works in a stable and secure way.
  - Voluntary Schemes have been given appropriate time to train their operators as well as auditors from certification bodies.
  - A simple, fully tested solution for non-certified and/or off-grid gas suppliers is implemented, and concerned Economic Operators have been trained to interact with the UDB.

We remain committed to co-operate with the European Commission and remain available to arrange a meeting with you to discuss the issue.

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<sup>5</sup> The early development status of the UDB was also recognised by DG CLIMA in October 2022: “Pursuant to Article 28(2), the Commission is to set up a Union database for tracing liquid and gaseous transport fuels. ***This is currently under development and little is known yet on its functioning***” (we underlined). See: [Guidance Document – Biomass issues in the EU ETS \(October 2022\)](#).

Yours sincerely,



The **European Biogas Association (EBA)** is the voice of renewable gas in Europe. Founded in February 2009, the association is committed to the deployment of sustainable biogas and biomethane production and use throughout the continent. The association counts today on a well-established network of over 200 organisations representing the whole biogas and biomethane value chain.



The **European Federation of Energy Traders (EFET)** promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 130 energy trading companies, active in over 27 European countries.



The **European Renewable Gas Registry (ERGaR)** is a Brussels-based association that aims at enabling cross-border transfers of certificates for renewable gases. Today we represent 34 members from 13 European countries and from a wide range of activities in the gas sector, such as renewable gas registries and associations, energy commodity traders and gas DSOs/TSOs. ERGaR operates the ERGaR CoO Scheme, which facilitates cross-border transfers of gas Guarantees of Origin as well as other types of renewable gas certificates. ERGaR also seeks to become a Europe-wide recognised organisation for administering the mass balancing of biomethane distributed along the European gas network.



**Eurogas** is an association of 68 companies involved in the natural, renewable and low carbon gases value chains. Our members cover gas wholesale, retail, distribution and transport along with companies manufacturing equipment and providing innovative solutions for services, like blending and methane emissions management. The purpose of Eurogas is to accelerate the transition to carbon neutrality through dialogue and advocacy about optimising the use of gas and gaseous fuels.



The **European Network of Transmission System Operators for Gas (ENTSOG)** was founded in line with Regulation (EC) 715/2009 and has played a key role in facilitating integration of the European gas markets, ensuring technical interoperability and providing security of supply by gas infrastructure planning. Looking forward, ENTSOG is contributing to the net-zero decarbonisation by 2050, in particular by the integration of renewable and low carbon gases via future-proof gas transmission pipelines, in line with the EU energy and climate goals.



**Gas Infrastructure Europe (GIE)** is the association representing the interests of European gas infrastructure operators. GIE members are active in transmission, storage and regasification via LNG terminals of renewable and low-carbon gases, including natural gas and hydrogen. Gathering around 70 industry entities from 27 European countries, GIE perfectly embodies the multiple transitional decarbonisation pathways of the EU regions. The association's vision is that by 2050, the gas infrastructure will be the backbone of the new innovative energy system, allowing European citizens and industries to benefit from a secure, efficient and sustainable energy supply.