The Consumer Voice in Europe

TOWARDS CONSUMER-FRIENDLY GAS MARKETS

BEUC's preliminary views on the upcoming Gas Markets package

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Why it matters to consumers

Today, nearly one third of the energy used by European households is natural gas. Despite this important share, consumer rights and protections in the gas sector lag behind those in electricity. Gas consumers find it difficult to understand what they are paying for, how to distinguish between different offers and how sustainable their heating is. To support Europe's plan to become carbon neutral by 2050, gas needs to be phased out and consumers will need to switch from gas to renewable energy. To support the switch, consumers need information and advice on what (renewable) energy solution is best for them. Renewable gas will remain key for Europe's energy system, but its role will change, as it will be mainly used in sectors that are hard to decarbonise (e.g., maritime, aviation, industry) and as a back-up for when the wind is not blowing or the sun is not shining. Electricity and gas systems will increasingly need to work in synergy and these investments should be coordinated to avoid unnecessary investments, which would lead to higher energy bills for consumers.

Summary

BEUC, The European Consumer Organisation, welcomes the revision of the Gas Directive. The revision should improve rights and protections for consumers in the gas sector and ensure a cost-efficient phase out of gas and transition to renewables in the heating and cooling sector.
To realise this objective:

1) Existing consumer rights and protections in electricity should be mirrored to the gas sector. Additional safeguards and rights should be developed to keep pace with our climate ambitions and the development of new business models in a digital world.

2) Residential heating should be decarbonised through smart electrification and renewable-based district heating, as they are the most affordable renewable solutions to consumers. Hydrogen should not be blended in gas grids and the cost of hydrogen networks should not be recovered through gas network tariffs, to avoid locking consumers into an expensive energy future.

3) Investments in gas and electricity transmission networks at the national level should be planned in one single plan, which should be approved by national regulatory authorities. Transmission system operators (TSOs) should consult stakeholders, including civil society organisations, on these plans and should facilitate their involvement by making the data used for these plans publicly available.

The paper provides a summary of BEUC's views on the upcoming Gas Market Package. More detailed explanations can be found BEUC position paper, How to make consumer rights and protections in gas future proof and BEUC position paper, How to make the home heating and cooling revolution consumer-friendly?.

1. Equivalent consumer rights for gas and electricity

Given the similar structures of the gas and electricity markets, a first and rather straightforward step would be to mirror relevant provisions of the existing consumer rights and protection framework in electricity to gas. This includes: basic contractual rights; rules for bills and billing information; the right to switch energy provider; provisions on independent comparison tools; protections for vulnerable and energy poor consumers; adequate data protection for smart meters and data management; and alternative dispute resolution.[1] However, some articles need to be adapted to the gas market: Smart meters, aggregators, demand-response are less opportune for gas and should therefore not be incentivised. Yet, we suggest that the protection for consumers regarding newly developed technology should be the same as for electricity.

Existing consumer rights & protections in electricity (existing Article of the Electricity Directive into brackets).	**Existing consumer rights & protections in gas**	**Mirroring opportune ?**
Basic contractual rights (10)	Existing, but less complete	Some provisions missing in gas, could become a dedicated article
Right to switch energy provider (12)	Existing, but less complete	Some provisions missing in gas, could become a dedicated article
Independent comparison tools (14)	Non-existent	Could become a dedicated article
Rules for bills and billing information (18 + Annex I)	Existing, but less complete	Missing rules should be added for gas
Specific protection measures for vulnerable consumers (28)	Existing, but less complete	Some provisions missing in gas, could become a dedicated article
Assessment of energy poverty (29)	Non-existent	Yes, insert corresponding article
Regulated prices for vulnerable consumers (5)	MS decide on criteria for regulated prices.	Yes, insert corresponding article
Data management and protection (23)	Very limited	Yes, insert corresponding article
Smart meter (19 & 20)	Consumer protection is less complete for gas	Missing consumer protections should be introduced
Dynamic pricing, demand-response and aggregators (11, 13, 17)	Non-existent	Not relevant for gas.

[1] Please refer also to the mirroring table in the annex of this position paper.

Active customers (15) and citizens energy communities	No dedicated provisions for gas	Not relevant for gas.
Single point of contact (25)	Single point of contact (3 §9)	Could become a dedicated article
Right to out-of-court settlement (26)	Existing, but less complete	Some provisions missing in gas, could become a dedicated article
Independent oversight by regulatory authorities (57, 58 & 59)	Independent oversight by regulatory authorities (39, 40 & 41)	Already in place

In addition, **the Gas Directive should build upon the lessons learnt from the implementation of the Electricity Directive and *ad hoc* measures adopted for vulnerable and energy poor consumers during the COVID-19 pandemic.**

The initial assessment of the implementation of the Electricity Directive shows that bills and contracts can still become more user-friendly. Important information in bills and contracts should be displayed in a prominent manner. For example, important contract clauses and changes should be put in bold and accompanied by a warning sign. Information on switching should be grouped together in a "switching package" in the bill. This switching package should include the information on the benefits of switching, a link to the independent comparison tool, the name of the tariff and a switching code/unique identification code.

The COVID pandemic has showed the benefits of banning disconnections during so called critical times. For the future, a more detailed definition of such times is needed to ensure that temporary bans of disconnections are implemented. For instance, a temporary ban of disconnections during winter times and national holidays and weekends should be introduced. In addition, consumers should be prevented from being more exposed to disconnection while using on-bill schemes[2] or bundled offers[3].

Moreover, **the Gas Directive should keep pace with EU's climate ambitions**.

Consumers need to receive clear information on the climate impact of fossil gas. This includes disclosure of fuels used and associated greenhouse gas emissions *(mirroring Annex I, paragraph 5 of the Electricity Directive*).

In addition, widespread greenwashing via misleading 'green' gas offers should be prohibited. To ban 'green' offers for fossil gas, trustworthy guarantees of origin for renewable gases and an effective pre-approval scheme are needed. A pre-approval scheme would establish clear conditions for specific environmental claims and require companies to submit the relevant evidence prior to using the claim on the market.

This preapproval scheme can be set up via the forthcoming legislative initiative on substantiating green claims. If energy is not in the scope of this initiative, a similar system needs to be set up via the upcoming revision of the Renewable Energy Directive or the Gas

[2] On-bill schemes provide a loan that covers the costs of energy efficiency improvements and investments in renewable heat technology. The consumer pays back the initial costs of these investments by monthly instalments which are folded in their energy bill.
[3] Bundled offers combine several products and/or services in a package, for example a gas and electricity contract.

Directive. In energy legislation, a solid chain of custody system is needed (guarantees of origins) to allow for substantiated green claims.[4]

Consumers should also be empowered to switch to renewable heating solutions, for instance by receiving a link or a reference in their gas bills and on comparison tool websites where they can find more information on renewable heating solutions.

In an increasingly **digitalised gas market, consumers should be adequately protected when making use of new business models**.

First and most importantly, competitive traditional offers should always be available to avoid discriminating against consumers without digital skills or equipment.
At the same time, more and more consumers rely on new digital services provided by third party intermediaries such as automated switching tools and bill splitters when interacting with their energy supplier. When doing so, they risk falling outside the scope of important consumer protection such as mandatory alternative dispute resolution and rights on bills and billing information. Effective measures are needed to address this loophole.

Bundled offers are becoming more widespread but protections remain limited. Additional protections for consumers opting for bundled offers are needed. Consumers should be allowed to terminate their contract if the offer is extended to additional products without their consent. Regulatory authorities should monitor bundled products and assess the benefits for consumers. Disconnection should be prohibited when a consumer is still able to pay for the energy service, but not for bundled products unrelated to the energy service. It should always be possible therefore to terminate individual services in the bundled offer and keep the essential service (in this case, energy) intact.

Last but not least, better protection against cyber-attacks for smart meters, preferably by a general legal framework for all types of energy, is needed.

For more detailed recommendations, please have a look at BEUC's position paper on how to make consumer rights and protections in gas future-proof.[5]

2. Hydrogen and renewable gases

Fossil gas needs to be phased out. Residential heating should be decarbonised through heat pumps and renewable district heating and not by mixing hydrogen and renewable gases in the gas supply.
Decarbonisation through renewable gases is connected to several important risks and uncertainties, including on future costs.

Heating with renewable gases is expected to be a more expensive option compared to smart heat pumps and district heating because of its inefficiency, the expected high competition for scarce fuels and the need to retrofit equipment and gas pipes in consumers' homes if a sufficiently high share of hydrogen is mixed in the gas supply.

In addition, it is unclear whether sufficient quantities of renewable gases will be produced, so that it can be used not only in sectors in which they are the only viable decarbonisation option (i.e., energy intensive sectors, maritime, aviation), but also in residential heating, where viable alternatives exist and are already widely rolled out in several countries. There

[4] For more information, see BEUC position paper Getting rid of green washing, December 2020.
[5] For more information, see BEUC position paper on how to make consumer rights and protections in gas future proof, July 2021.

is a high risk that, if the EU aims to decarbonise residential heating through renewable gases, consumers may be locked-in to fossil gas infrastructure.

Hence, the EU should not set promote blending renewable gas and hydrogen in the gas supply. This would lead to investments in an unproven technology and risking locking consumers into fossil fuel infrastructure.[6]

The EU should instead promote a shift to sustainable and proven renewable heating technologies such as heat pumps and renewables-based district heating.

Hydrogen networks should not be financed by household gas users

Hydrogen will play a key role in decarbonising sectors for which electrification is not a viable or cost-effective option (e.g., some industrial sectors, maritime and aviation).

To produce and deliver hydrogen to relevant end users, production facilities (i.e., electrolysers) and appropriate infrastructure will need to be built across Europe. Decisions on hydrogen grids should be based on a solid assessment of expected demand and supply to avoid overinvestments in the network.

The regulatory framework on gas and hydrogen should ensure that this development is financed through network charges that are paid by hydrogen users. There should not be a cross-subsidisation of hydrogen networks through network tariffs paid by (household) gas users.
Due to the expected reduction in gas demand, it may be cost-effective to repurpose some gas networks to transport hydrogen, but this should be reserved to the specific uses described above. Hence, to avoid households paying the price of the adaptation of the network, safeguards for gas users should be introduced, avoiding the risk of cross-subsidisation of hydrogen networks through gas network tariffs.[7]

3. Energy infrastructure planning

The development and the operation of gas and electricity networks is paid through the network tariffs in consumers' gas and electricity bills. If gas and electricity system operators over-invest in their networks or manage them inefficiently, this is directly reflected in an increase in network tariffs paid by consumers, who would be exposed to higher electricity and gas bills.

The key to avoid such overinvestments and hence high bills for consumers is to ensure that decisions on gas and electricity networks:

1) are based on a realistic assessment of future electricity and gas demand;
2) are covered in one single network development plan based on one single demand assessment, to avoid a duplication of energy infrastructure;
3) prioritise incentives to consumers' flexible electricity consumption to conventional electric grid reinforcements, as they are a more cost-effective solution.

[6] For further information, see BEUC position paper How to make the home heating and cooling revolution consumer-friendly?, February 2021.
[7] See vzbv, Wasserstoffnetze nicht zu Lasten von Verbrauchern finanzieren, October 2020.

Improve the assessment of future electricity and gas demand to avoid over-investment in energy networks, which would lead to higher energy bills for consumers

In the next decade, the EU expects that gas demand will decrease by 25% as consumers will switch from gas heating systems to renewable heating, primarily smart heat pumps and sustainable district heating, to support Europe's decarbonisation agenda.

This means that the number of users and the utilisation rate in gas networks is expected to decrease, while the contrary is expected to happen in electricity and district heating networks.

The transition from gas to electricity and district heating will only lead to the lowest possible costs to consumers if decisions on infrastructure are cost-effective and based on accurate information on expected future demand for each energy carrier and on the potential flexibility of electric heat.

If gas and electricity system operators over-invest in their networks, these unnecessary investments will be paid directly by consumers through their energy bills, raising the cost of the energy transition and undermining its public acceptance.

The Renewable Energy Directive should require Member States to develop national heating and cooling decarbonisation plans empowering consumers to make the shift to sustainable heating. Among other things, these plans should include clear timelines and targets for the roll-out of sustainable heating systems, the deployment of district heating networks and the phase out of fossil fuels in heating.[8]

Information on future heat demand across all energy carriers included in national heating and cooling decarbonisation plans should be the basis for the development of a realistic joint demand scenario, informing the development of national network development plans for electricity and gas.

Develop cost-efficient network development plans

Move to a single national network development plan covering gas and electricity and ensure that regulators have sufficient oversight on plans developed by transmission system operators and distribution system operators.

In many countries, electricity and gas network plans are developed separately by different authorities, with different timelines, on the basis of different demand scenarios and without any coordination.[9]

This misalignment carries significant over-investment risk, especially if we consider that gas and electricity networks are expected to function in a more coordinated way. For example, as more and more electricity will be produced from variable wind and solar energy sources, to ensure that consumers always have access to electricity, system operators may give them incentives to use energy more flexibly, or the flexibility could be guaranteed by gas power plants.

There is a risk that, if two plans are developed, especially if not in coordination and at different times, gas system operators may make investments in new pipelines to deliver gas to power plants so that they can guarantee flexible electricity supply, while the

[8] For further information, please refer to BEUC position paper, How to make the home heating and cooling revolution consumer-friendly?, February 2021.
[9] See, for example, vzbv, Kosteneffizienz und Synergien beim Stromnetzausbau nutzen, February 2021.

electricity network plan may be providing incentives to consumers to use energy more flexibly.

This duplication of investments would be paid for by consumers through an increase in the network tariffs in both their gas and electricity bills, while one of the two investments (and hence one of the two tariff increases) could have been avoided.

One single national network development plan should be developed, to leverage synergies between gas and electricity networks and avoid over-investments.

The single national network plan should prioritise cost-efficient infrastructural options. This means that for gas networks, this should reflect the expected decrease in the usage of the networks, as well as aiming to reduce losses in the network.

At the same time, for electricity networks, the plan should recognise that consumers can use electricity flexibly if they are given the right incentives and if this is made easy for them. Harnessing consumers' flexible electricity consumption will be key to reduce the need for investments in grid reinforcements and hence to reduce consumers' energy bills. For this reason, electricity system operators should prioritise demand response over conventional grid reinforcements and provide consumers adequate incentives to nudge consumers to use electricity flexibly, particularly when it comes to heating their homes and to charging their cars.

Hydrogen networks should also be included in the single network plan. However, hydrogen networks (and investments in hydrogen networks) should be regulated separately from gas networks (and investments in gas networks) and should be included in a separate "Regulated Asset Base". This ensures that the investments in hydrogen networks are kept separate from investments in gas networks and that they are recovered through hydrogen network tariffs and not through gas network tariffs – which are paid by gas users.

Electricity and gas distribution system operators should also prepare their own distribution system network plans, in line with the principles outlined above.

Both transmission and distribution network plans should be developed in consultation with stakeholders, including consumers, with a requirement that networks justify when comments are taken up and when not. To help stakeholders' scrutiny on draft scenarios and plans, they should be developed in a standardised and comparable format and all data used to develop them should be made freely and publicly available.

Both the transmission and the distribution network development plans should be developed on the basis of binding guidelines established by National Regulatory Authorities. NRAs should also be tasked with assessing and approving the plans, to ensure that they are cost-effective.

Promote flexible electricity consumption in a consumer-centric manner

Local information on where electricity production and demand response can reduce additional investment needs into electricity networks should also be included in network development plans developed by electricity Transmission System Operators (TSOs), as well as in distribution system network plans developed by electricity Distribution System Operators (DSOs). TSOs and DSOs should foresee adequate remuneration for consumers willing to use electricity flexibly, nudging them to invest in products facilitating demand response and in solar panels. Flexibility should never become mandatory for consumers, as some may be unable to use electricity flexibly as, for example, they may not possess and may not be able to afford the necessary equipment allowing them to do so.

In addition, appropriate awareness raising activities, informing consumers about the opportunity to make savings by investing in products facilitating flexible electricity consumption, should be rolled out. Consumers should also be able to receive trusted advice on how to use energy flexibly, for example from one-stop-shops established in accordance with the Energy Performance of Buildings Directive.

Prevent the risk of rising gas bills for households

The number of gas users is expected to decrease as Europe is committed to decarbonise the heating sector. At the same time, the costs of operating gas networks are expected to remain roughly the same and past investments in the networks have not yet been fully recovered. There is a risk that since these costs will need to be paid for by a decreasing number of gas users, consumers using gas and unable to switch to electricity may see their network tariffs increase. Regulations should ensure that gas network tariffs remain affordable to consumers.

END

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