

CONSULTATION RESPONSE

June 2023

Consultation Terms & Conditions Hydrogen Bank



HYDROGEN

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With the objective of maximising hydrogen production in Europe, and in response to the adoption of the Inflation Reduction Act (IRA) in the United States, the European Commission decided to reserve a part of the Innovation Fund exclusively for a scheme widely known as the Hydrogen Bank.

Bellona has been closely following the development of such a fund from his announcement in the State of the Union speech by Ursula Von der Leyen on the 14th of September 2022, highlighting that we found [problematic to earmark a fund for climate innovation to a specific technology](#), without any guarantee that this would achieve actual decarbonisation on the ground.

In a public consultation on the matter, we [highlighted the need for introducing such guarantees](#), by ensuring that public support for hydrogen production would be granted only under two strict following conditions:

1. Hydrogen is produced in a way that does not increase emissions in any other part of the energy system.
2. Hydrogen is used in a sector that does not have other decarbonisation pathways

After proposing a draft of the terms and conditions, the Commission requested relevant stakeholders to provide specific additional feedback on the provisions. Bellona participated in the stakeholder consultation and provided feedback on the following four design elements.

1.6 ENSURING COMPETITION BY: MARKET TESTING, HARD BUDGET CAP AND FEEDBACK ON LEVEL OF COMPETITION FROM ONE ROUND TO ANOTHER. NO CLAW-BACKS.

The absence of a claw-back mechanism is problematic: no matter the evolution of the level of cumulative return of the fixed premium and the strike price with off-takers, the producer will continue to receive the subsidy. This might result in overcompensating hydrogen producers via public funding.

As only a five-year precontractual agreement is required to apply for the funding. Therefore, there is a high likelihood that after five years the strike price with off-takers will evolve, especially driven by the targets across legislation (RED, RefuelEU, FuelEU). Moreover, precontractual agreements have different legal statuses in different Member States. Because of this, under certain circumstances, prices might evolve even before the initial five years are over.

Considering that funding is issued for a period of ten years, it is crucial to include a claw-back mechanism preventing inflated profits sponsored by public funding. This should enter into force above a certain ceiling where an acceptable profit margin is guaranteed to project developers.

2.1 KEY TECHNICAL AND FINANCIAL CHECKS FOR PROJECT AND BIDDER

The key technical and financial checks for the project and bidder should include evidence of a project to transport the hydrogen from the producer to the off-taker. This can be provided in the form of a precontractual agreement with a third party transporting the hydrogen or at least as a Memorandum of Understanding or a Letter of Intent.

The transport of the hydrogen from the producer to the off-taker is a vital part of the value chain, and transparency on it is essential to track the life cycle of the hydrogen molecules.

Moreover, collecting such knowledge would allow the Commission to have visibility over where intervention is needed to ensure a smooth development of hydrogen infrastructure.

2.4 OFF-TAKER RESTRICTIONS

Wherever different (and more efficient) decarbonisation pathways exist for a sector, this should be prioritised over hydrogen. For this reason, public support should be given to hydrogen only if it is used to decarbonise targeted industrial sectors, such as the chemical sector (in applications such as ammonia production), the metal industry, and applications needing high temperature heat such as glass or ceramic.

The absence of restrictions in terms of hydrogen off-takers drastically increases the risks that hydrogen consumption will be directed to sectors that have more efficient decarbonisation pathways.

Moreover, funding in the Hydrogen Bank is derived from the Innovation Fund whose purpose is to support the decarbonisation of sectors within the scope of the EU Emissions Trading System (ETS), while under the current conditions funding could be given to any sector.

Therefore, sectors for which a proven alternative and more energy efficient and economic decarbonisation pathways exist, and those outside of the scope of the EU ETS, should be excluded from possible off-takers. The list of excluded sectors should include at least: home heating, road transport and electricity storage. Furthermore, off-takers who seek to blend hydrogen into the fossil gas grid should not be eligible.

2.8 CUMULATION WITH STATE AID OR EU FUNDING FOR HYDROGEN PRODUCERS

Under the current legislative framework, electrolysers will be able to receive a fixed premium under the hydrogen bank scheme and the revenues resulting from the free allocation of emission allowances under the EU ETS at the same time.

The increasing value of diminishing available free allocations will likely result in an overcompensation of hydrogen production with public funding.

The exclusion of projects that receive financial support from the hydrogen bank from receiving free allocations is needed to prevent inflated profits paid for by public fundings.



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Bellona Europa is an independent, non-profit organisation that meets environmental and climate challenges head on. We are solutions-oriented and have a comprehensive and cross-sectoral approach to assess the economics, climate impacts and technical feasibility of necessary climate actions. To do this, we work with civil society, academia, governments, institutions, and industries.