

Brussels, 31 May 2024

**BDEW Bundesverband
der Energie- und
Wasserwirtschaft e. V.**
Reinhardtstraße 32
10117 Berlin

www.bdew.de

Discussion Paper

Experiences with the pilot auction of the European Hydrogen Bank and recommendations for further developments

Version: 1.0

Der Bundesverband der Energie- und Wasserwirtschaft (BDEW), Berlin, und seine Landesorganisationen vertreten mehr als 2.000 Unternehmen. Das Spektrum der Mitglieder reicht von lokalen und kommunalen über regionale bis hin zu überregionalen Unternehmen. Sie repräsentieren rund 90 Prozent des Strom- und gut 60 Prozent des Nah- und Fernwärmeabsatzes, über 90 Prozent des Erdgasabsatzes, über 95 Prozent der Energienetze sowie 80 Prozent der Trinkwasser-Förderung und rund ein Drittel der Abwasser-Entsorgung in Deutschland.

Der BDEW ist im Lobbyregister für die Interessenvertretung gegenüber dem Deutschen Bundestag und der Bundesregierung sowie im europäischen Transparenzregister für die Interessenvertretung gegenüber den EU-Institutionen eingetragen. Bei der Interessenvertretung legt er neben dem anerkannten Verhaltenskodex nach § 5 Absatz 3 Satz 1 LobbyRG, dem Verhaltenskodex nach dem Register der Interessenvertreter (europa.eu) auch zusätzlich die BDEW-interne Compliance Richtlinie im Sinne einer professionellen und transparenten Tätigkeit zugrunde. Registereintrag national: R000888. Registereintrag europäisch: 20457441380-38

Content

1 First pilot auction3

2 Proposed improvements to the pilot auction4

3 Recommendations for the future design of the European Hydrogen Bank6

1. First pilot auction

BDEW welcomes the first auction under the European Hydrogen Bank (EHB), which closed on 8 February 2024. With 132 applications from projects throughout the EU, this initial round can be considered a success. It is very positive that Germany was the first and only Member State to participate in the 'auction as a service' mechanism with a volume of €350 million. This allows German projects that will not be funded at EU level once the €800 million budget is exhausted to still receive financial support. This is logical and essential for German projects as they may be less competitive in an EU comparison due to their higher generation costs resulting from regional circumstances. Equally encouraging is the announcement that the European Commission recognises the need for financial support for the development of the hydrogen market, which is why the budget for the second auction should be significantly increased. Especially in the early and ramp-up phase of the hydrogen market, the initial funding should be higher so that a larger number of projects can benefit, and the market can develop accordingly. For this reason, efforts should be made to plan further bidding rounds with a budget that is at least as high.

The fact that the auction conditions were published well in advance of the application phase and that the European Commission organised information and consultation events is a positive aspect of the pilot auction. The FAQs were published in a detailed document. This allowed companies to prepare applications for their respective projects and to clarify individual questions.

BDEW recognises that this is only a first tender and that improvements to the instrument are foreseen. The following challenges were identified by BDEW member companies during the pilot auction. As a result, BDEW suggests further developments in the design of the hydrogen bank.

2. Proposed improvements to the pilot auction

1. Combination with national support schemes

The lack of clarity, on which national support measures for electrolysis projects are covered by the prohibition on cumulation in the application process is problematic. This situation has caused great uncertainty among companies. These include in particular exemptions from grid fees, electricity tax reductions/exemptions and electricity price compensation. The exclusion of cumulation with EHB subsidies puts German projects at a general disadvantage in a European comparison due to the comparatively high cost of electricity.

In particular, the German Federal Ministry for Economic Affairs and Climate Action (BMWK) had not yet finally clarified the exemption from grid fees under section 118 of the German Energy Act (EnWG) at the end of January 2024, i.e., shortly before the end of the tender round. As a result, companies had no certainty as to whether they would also be eligible for EHB funding for projects benefiting from such national measures. As funding that has already been awarded can still be rejected by the European Commission after a positive decision, it remains uncertain whether it is worth the effort to apply in this uncertain environment.

For the upcoming tenders, the German government, in consultation with the European Commission, should provide binding and clear guidelines on what constitutes state aid as defined in the auction terms. Moreover, the terms for future tenders should include more flexible cumulation requirements that allow for funding from different instruments while avoiding double funding or overcompensation. This applies equally to all applicants and therefore has a direct impact on the success of German companies applying. This is particularly relevant for German projects, which are less competitive in terms of price compared to other EU countries and therefore have little incentive to participate in the auction.

2. Auction as a service

In contrast to the early publication of the auction conditions at the end of August 2023, the announcement of the additional national funding as part of the 'auction-as-a-service' instrument was not made until mid-December 2023, and therefore very late. In future tender rounds, the promise of additional funding should be communicated earlier, so that interested companies can prepare and organise their projects accordingly.

In addition, there was initially little information about the framework conditions of the national funding programmes. Moreover, the tender conditions differ from those of the EHB at EU level, as projects falling under § 37a of the German Federal Emission Protection Act (BlmschG) cannot be funded, thus excluding projects for mobility applications. It would be desirable that the same tendering conditions that apply at EU level also apply at national level when using the mechanism. The short application window has made it almost impossible for projects to change the future recipient of the produced hydrogen (e.g., from mobility to industry).

Having in mind the maximum allowed bid price of €4.50 per kg/H₂ according to the Terms and Conditions, it is questionable why the auction conditions require a different maximum bid price for the 'auction-as-a-service' instrument. Here, the maximum bid price for the award of national subsidies is to be set at three times the price of the last subsidised project at European level, which is now €1.44 per kg/H₂ for Germany. The projects will be listed according to the same principle as in the EU-wide tender and will be funded until the national budget is exhausted. Therefore, we do not consider a lower maximum bid price to be beneficial.

3. Application procedure

Despite the announcement made by the European Commission's Directorate-General for Climate Action to introduce a simplified application procedure, the final documentation to be submitted is very extensive. There has also been uncertainty about the level of detail required in the documents to be submitted. Hence, there is a need for clear guidelines on the application process. Stakeholders should also be involved in designing the process, as the reality check is what ultimately determines the success of the auctions. The organisational effort required to participate in the application process should be taken into account by the European Commission. It can be reduced by explicit requirements and by limiting the number of documents to a clearly defined set. The results of the first auction show that most projects were able to meet the qualitative evaluation criteria, with only 13 of the 132 projects submitted failing to do so. To maintain this success rate, it would be useful to present the evaluation criteria for subsequent auctions in a transparent manner. Clear application templates would be particularly helpful.

The EHB auction is based on the 2022 Guidelines on State Aid for Climate, Environmental Protection and Energy (CEEAG). Point 29 of the CEEAG stipulates that work on planned projects may only begin once an application for support has been submitted. If a project has participated unsuccessfully in the pilot auction, it should be made clear for further auctions that an application for aid has already been submitted with the first participation in the (pilot) auction and that work on the project or activities can therefore be carried out without being classified as ineligible for aid in future applications. This means that projects can continue to participate in future auctions, but do not need to be unnecessarily interrupted beforehand. Otherwise, there is a risk that electrolysis projects will be massively delayed.

3. Recommendations for the future design of the European Hydrogen Bank

- Future tenders should be announced well in advance to allow project developers to plan better. Fixed annual auction dates (similar to the EU Innovation Fund) are essential for preparation.
- Future auctions should take into account regional characteristics such as differences in electricity production costs and hydrogen demand. This is particularly important as an EU-wide infrastructure will not yet be fully established in the early years of hydrogen deployment. The introduction of regional sub-budgets is therefore particularly useful in the early stages of the hydrogen economy.
- In the development and ramp-up phase of the European hydrogen economy, both renewable and low-carbon hydrogen production projects will be needed. In order to avoid favouring one product over the other, it would be feasible to either have dedicated, separate auctions for low-carbon and renewable hydrogen, or to have fixed maximum budgets (defined in terms of quantity or price). In this way, sufficient quantities can be ensured and the ramp-up of renewable hydrogen is not hindered. The volumes are essential for the ramp-up, especially considering the demand and use in energy-intensive industries to meet decarbonisation targets.
- Subsidy payments should be indexed to inflation over the entire duration of the scheme to protect producers from future increases in energy prices and operating costs.
- The pilot auction provides for a 'fixed premium' to be paid per kilogram of hydrogen produced. This is pragmatic at this early stage of market development but requires electrolysis projects to commit to long-term contracts to avoid price risk, while off-takers want to remain flexible to benefit from falling prices in the future. To establish hydrogen as a tradable commodity, a CfD system should be considered as an alternative in the medium term. This is because it removes the price risk from the hydrogen producer without forcing them into a long-term contract and is therefore less restrictive to the development of hydrogen trading.
- Tenders under the international pillar for the import of hydrogen (and its derivatives) from third countries should also be developed and launched without delay. Additional budget should be used for this, so as not to reduce subsidies for production within the EU. For a broad diversification of hydrogen deployment, both pillars are essential.

Contact

Lukas Karl
Manager European Energy Policy
(EU Representation)
+32 2 77451-16
lukas.karl@bdew.de

Jannis Speckmann
Manager Hydrogen Economy (EU &
international)
+49 30 300199-1255
jannis.speckmann@bdew.de