

Eurogas position on the European Hydrogen Bank

Eurogas welcomes the European Commission's ambition to stimulate and support investment in hydrogen production through a European Hydrogen Bank (EHB) as presented in the [2022 State of the Union](#) and established in the [Communication from 16 March 2023](#). Indeed, Eurogas believes that both domestic production and imports of hydrogen will be key to deploy this nascent industry.

Eurogas' key topics of interest on the EHB

Administration: Simplicity should be a primary focus when designing and implementing mechanisms to ensure their effectiveness. EU fundings represent a complex landscape: it should be ensured that companies, including SMEs, can accurately identify and apply for the right funding programs. This is especially crucial when considering the international dimension, as there is a growing demand for clarity regarding the applicability of these programs to non-EU producers. This will also be of importance for the international dimension: we already see the need for clarity concerning the applicability to extra-EU producers. For instance, ensuring compliance with EU requirements, especially the RED II Delegated Act, and certification procedures becomes essential in this context.

Budget: We welcome the Commission's recognition of the need for financial support to develop the hydrogen market. However, the proposed endowment of € 800 million for the first domestic auction is likely to be insufficient considering the EU ambitions for hydrogen. It also needs to be clarified how the remaining €2.2 billion will be used.

Auction design parameters

1) Maximum realisation period

The Commission will establish, after a consultation of stakeholders, a maximum realisation period. Eurogas considers that such period should be flexible enough for bidders to successfully complete their project. Therefore, a *force majeure* clause for demonstrably unforeseen and uncontrollable events (e.g. insolvency of the supplier, delivery problems of the electrolyser, connection delays, permit obstacles) should be included in the framework of the EHB. In case the bidder can prove that he is not at fault, an extension of the realisation period should be possible, and no sanctions should be imposed on the bidder.

2) Pre-qualification criteria

Since the Commission has clearly stated that PPAs are not intended to demonstrate compliance with the Delegated Act, but are primarily intended to ensure electricity sourcing, an electricity sourcing strategy should be sufficient as a prequalification requirement instead of a 10-year PPA.

3) Bid ranking criteria

We support the price-only ranking as envisaged for the first domestic auction as it is a simple and straightforward approach. However for future auctions, the European Commission should consider other balancing factors in addition to the pure price ranking such as the CO₂ emissions reduction of the project.

4) Auction type

Eurogas believes that one-sided auctions awarding a fixed-premium per kg of renewable hydrogen are an appropriate instrument to support the ramp up phase. In order to close the economic gap in the long term, an applicable double-sided auction mechanism could be envisaged at a later stage. Double-sided auctions – enabling buyers and sellers to submit their preferred prices to a list, with trades only occurring when a match between a buyer's and seller's price is found – could help reduce the uncertainties associated with offtake contracts, but the specific design would be important.

Long term contracts on the supply side and on the demand side could be an option to ensure planning security.

5) Multiple auction rounds

Ideally, the Commission should explore the idea of organising multiple auction rounds per year to allow a quick ramp up of the market. Considering the usual project duration and the expected service life of electrolysis stacks of 10-15 years, it would be appropriate to also extend the maximum duration period of the mechanism accordingly.

6) Cumulation with State Aid

An accumulation of funding should be possible. CAPEX and OPEX are known since the very beginning of the project, however revenues will depend on the future market which is still unknown. Therefore, considering that the hydrogen business is risky by definition, support from EU or Member states shall be complementary to enable achieving a reasonable profitability. It is imperative that other funding received or to be received will be appropriately factored into the ranking and will not distort competition.

7) Remuneration Type

The first pilot auction launched by the European Hydrogen Bank enables payments only after the delivery of certified and verified volumes of renewable hydrogen. Subsidies given after production reduce investment security and increase the need for financing for project developers. Eurogas would recommend to replace the 'payment upon delivery' design by a pre-financing approach based on volume nominations.

Choice of policy instrument(s) for supporting international production of renewable hydrogen

It will be essential to streamline the auction mechanisms both for the domestic and the import sides. Considering that only renewable hydrogen as defined by the RED II Delegated Acts will be eligible, uncertainties persist (e.g. the concept of "bidding zones" cannot easily be transferred outside of Europe). Additionally, the setup of certification must be urgently resolved to provide regulatory certainty.

Auction-as-a-service

The introduction of auction-as-a service is a reasonable step. Providing a single point of contact for support mechanisms including in the Member States could help to prevent fragmentation in the phase of the hydrogen market ramp up and thus create transparency and reduce administrative costs. The exact operation must be further detailed in order to better assess its usefulness.

Role of low-carbon hydrogen within the EHB

We believe low carbon hydrogen has a role to play in the decarbonisation pathways and the development of a hydrogen market, especially considering e.g. the common infrastructure and customers. Recent political debate showcases the need to leave the choice of the appropriate decarbonisation pathway to Member States. Considering for support low carbon hydrogen with a dedicated mechanism (eg. auction, CFDs, etc.) can help reduce the overall cost of hydrogen produced in the EU, and also help rapidly deliver larger volumes.

Future auctions

Eurogas would suggest abstaining from any prioritisation on supporting specific sectors (and excluding other sectors).

On top of that, in order to balance the price advantage of low carbon hydrogen compared to renewable hydrogen in production, it is worth considering other balancing factors in addition to the pure price ranking. For example, the GHG savings over the entire life cycle can be taken into account.

Aggregation of demand and transparency instrument similar to the EU Energy Platform

The EU energy platform for natural gas has so far completed only two demand aggregation rounds. Feedback on the effectiveness of this initiative and the extent to which it has delivered real benefits to stakeholders is necessary by way of a public consultation and impact assessment, before its application to the hydrogen market is explored further, or assumed. As noted in the Gas Package, the nascent status of the hydrogen market must be acknowledged and the differences in characteristics between it and the mature natural gas market such as the number of market players and the existence of an efficient infrastructure, must be reflected upon.

Additionally, it should be noted that the objective of the AggregateEU is according to the EC: *“to contribute to the security of supply (both in terms of volume and affordability), with a focus on LNG.”* The applicability and necessity of a system similar to the AggregateEU – which has been designed as an emergency solidarity measure – remains questionable for hydrogen.