

## European Hydrogen Bank

### Recommendations for the second auction

WindEurope welcomes the European Commission's ambition to stimulate and support investment in renewable hydrogen production through the European Hydrogen Bank (EHB). The Terms & Conditions of the second auction should not be fundamentally changed. But some changes would help the scheme to unlock more competitive financial investment decisions to produce renewable hydrogen (RH2) and its derivatives in the EU. Our recommendations include:

#### 1) Scope

WindEurope very much welcomes the fact that the EHB only supports renewable hydrogen and its derivatives, as these are the most suitable solutions for achieving the long-term goal of climate neutrality. This focus should remain consistent over time: funding should exclusively target future-proof investments in renewable solutions, and should continue to include renewable hydrogen only. To ensure its competitiveness with other less sustainable alternatives, it is vital that we continue to support the development of the RH2 value and supply chain.

#### 2) Cumulation with State Aid

WindEurope supports some degree of accumulation of funding under certain conditions, at least for the first few auctions. It is important to ensure that both mature projects with partial subsidies (not yet able to reach a Financial Investment Decision) and smaller projects are eligible to apply. Allowing cumulation is particularly relevant for integrated projects where hydrogen is only one part of a larger investment.

The following conditions should be met to allow cumulation:

- **Temporality:** cumulation to be allowed until the end of 2025;
- Aid that is cumulated must have been awarded on a competitive basis. This will ensure that EU funds are awarded to projects that are recognised for their quality and **maturity** before applying; and
- A **geographical** spread in allocation of funding by setting a minimum number of Member States that must be awarded funding per auction.

Outside Europe, no cumulation should be allowed for projects as this may create unfair competition with EU domestic production projects.

#### 3) Auction design

##### Time to entry into operation

WindEurope supports the commissioning period of **four years**. A shorter commissioning period is unachievable for renewable hydrogen projects due to the extensive administrative and construction

processes involved in both the electrolysis plant and the renewable assets. For projects of more than 200MW, five years would be necessary.

Moreover, careful attention needs to be given to the risk of **realisation delays** associated for example with connections to a hydrogen pipeline system. Cases like this should be considered as force majeure and should be exempt from any sanctions.

Furthermore, delays with grid connections and permitting need to be taken into account when considering lowering the commissioning period.

Completion guarantee should be set at **10%** to increase the quality of bidding projects and ensure that winning bids will become projects that are realised.

#### Payment type

WindEurope supports the fixed premium per kg of RH<sub>2</sub> produced, for a period of **at least 12 years** to give certainty to investors/project developers. This is the simplest and easiest tool. Payments should be made twice a year during the operation phase of projects and be based on the delivery of verified and certified volumes in compliance with the Delegated Acts (DA) on RFNBOs.

The provided fixed premium should be **indexed** to inflation to help the industry better cope with cost increases due to inflation of energy, materials and labour costs, and to avoid cancellation of projects. A lack of indexation could threaten to derail the efforts made so far, given the current market conditions and recent cases when developers pulled out of large projects.

#### **4) Resilience and non-price criteria**

Public funding must be awarded to projects which will maintain and reinforce the resilience of Europe's renewable hydrogen supply chain. The Bank's second auction should therefore include non-price criteria which is in line with the Implementing Act of the Net-Zero Industry Act (NZIA) and the Commission's recommendations on auction design for renewable energy – including a **resilience criterion**. To take part in the auction, all three critical production steps for electrolyzers (cell units' assembly, stack assembly, and surface treatment) should take place in countries that are signatories of the **WTO-compliant Government Procurement Agreement (GPA)**. The resilience requirements should be EU-harmonised, clear, transparent, and verifiable, and not result in excessive administrative burden.

Other pre-qualification criteria:

- Renewable electricity: developers should continue being able to choose their own renewable electricity sourcing strategy while complying with the Delegated Acts (DA) on RFNBOs.
- Offtakers: even though agreements with offtakers are non-binding, it is important to ensure a strong commitment of offtakers, for example by including Heads of Terms in MoUs.
- Grid connections and permitting: the criteria should include certain milestones to demonstrate the maturity of its asset with other permitting documents. These "maturity milestones" should be designed in a way to avoid delays due to other procedures in the general permitting process.

## **5) End-use sector prioritisation**

Introducing an end-use sector prioritisation would help to decarbonise particularly hard-to-abate sectors and achieve the binding RFNBOs targets (as per the Renewable Energy Directive, FuelEU Maritime and ReFuelEU Aviation). It is vital that the second auction channels the initially scarce renewable hydrogen to emission-intensive sectors such as heavy industry, aviation and shipping. Otherwise, there is a risk that hydrogen will be consumed by sectors with a higher willingness to pay, but with lower CO<sub>2</sub> abatement potential.

The ranking of bids should reflect the commitment of eligible producers to engage in a supply contract with industry priority sectors, based on the principle of prioritisation according to Article 3(6) of the Hydrogen and Decarbonised Gas Directive.

## **6) Budget**

WindEurope welcomes the Commission's recognition of the need for financial support to develop the hydrogen market. But as it stands the announced €3 billion budget for the two auctions will not be enough to kick-start domestic EU production and consumption of RH<sub>2</sub> or to meet the EU's RH<sub>2</sub> targets.

To meet the RePowerEU target of 10 million tonnes of domestic renewable hydrogen production, around 20GW of capacity would need to be added each year for the next six years. But by the end of 2023, only 3GW had reached a final investment decision or started construction<sup>1</sup>. Derisking projects and closing the cost gap remains the key challenge. Therefore, at least one auction per year with a minimum of € 3 billion budget per auction should be foreseen.

Investors need visibility on the budget and timing of auctions over the next couple of years to unlock investments. The sooner the production of renewable hydrogen scales up, the lower the total green premium for RH<sub>2</sub> is likely to be and the more Europe will likely be able to deliver its targets.

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<sup>1</sup> PwC, Navigating the global hydrogen ecosystem, 2024