

Email: hydrogen.businessmodels@beis.gov.uk

Consultation response submitted via BEIS' online survey.

6 May 2022

To whom it may concern,

Consultation Response: Hydrogen Business Model and Net Zero Hydrogen Fund: Market Engagement on Electrolytic Allocation

Scottish Renewables is the voice of Scotland's renewable energy industry. Our vision is for Scotland leading the world in renewable energy. We work to grow Scotland's renewable energy sector and sustain its position at the forefront of the global clean energy industry. We represent over 290 organisations that deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change.

Our members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

Scottish Renewables broadly supports the proposed approach to allocating Hydrogen Business Model and Net Zero Hydrogen Fund support to electrolytic hydrogen. However, we do have several comments concerning the proposed eligibility criteria, evaluation criteria, and process for agreeing an offer of HBM/NZHF support.

In terms of eligibility criteria, we argue that there needs to be provision for force majeure delays causing projects not to be able to meet the COD date of the end of 2025. Applicants also need clarification over the requirements concerning offtakers in the assessment of Technology Readiness Level.

Similar points of clarification are required for the role of portfolio factors and additionality in determining evaluation. We also feel that the weightings of the evaluation criteria should be rebalanced to prioritise the development of the hydrogen market rather than aiming to secure economic benefits at this early stage.

6th Floor, Tara House, 46 Bath Street,
Glasgow, G2 1HG
☎ 0141 353 4980 📧 @ScotRenew
www.scottishrenewables.com

Scottish Renewables Forum Limited.
A company limited by guarantee in Scotland No.200074
Registered office: c/o Harper Macleod,
The Ca'd'oro, 45 Gordon Street, Glasgow G1 3PE

In terms of the process of agreeing an offer, Scottish Renewables does not support using sealed bids as we have concerns about the feasibility of such an approach. However, if BEIS decides to proceed with a sealed bid process, we feel that it should be smaller projects that are designated to this pathway as they will have less resource to carry out bilateral negotiations relative to larger projects.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew MacNish Porter', with a stylized, cursive script.

Andrew MacNish Porter

Policy Manager – Economics and Markets

Scottish Renewables

CONSULTATION QUESTIONS

1. Do you agree with the proposed eligibility criteria for the first 2022 HBM/ NZHF electrolytic allocation round? Yes/ No/ Don't know. If not, please explain why.

Scottish Renewables broadly supports the proposed eligibility criteria for the first 2022 HBM/NZHF electrolytic allocation round and we support having an electrolytic only allocation in this round. However, we suggest some minor amendments and points of clarification.

We support the Commercial Operational Date of end of 2025 to bring forward projects at pace, particularly in light of the Government's increased targets. However, we believe it would be useful to have a provision for force majeure delays causing delays to production; this is a significant risk given the novelty of planning and regulatory processes, the potential for grid connection delays, and the nascency of the supply chain. Therefore, there needs to be scope for the COD date to be moved if a project encounters delays that are beyond its control. We also recommend the formation of a list of 'reserve' projects that can access any unused funding arising from force majeure delays.

The proposal needs to clarify whether the 5MW threshold is for electrical input or thermal output of hydrogen. We also welcome that BEIS will consider raising this threshold if there is evidence of a large pipeline of projects as we expect this funding to be significantly oversubscribed.

We welcome the proposal that core production technology should be Technology Readiness Level 7 or higher as the purpose of allocating this funding is to deliver hydrogen production by 2025, not invest further in R+D. However, if individual components are linked together in a process in a novel way, this process may be designated a lower TRL than the components. We would therefore urge BEIS to ensure that the entire process is at least TRL 7 so projects have a good chance of operating by 2025.

The requirement for applicants to have identified at least one offtaker lack clarity in terms of whether the offtaker(s) are to take 100% of hydrogen production. This should not be a requirement as having an agreement with an offtaker(s) to take all production at this stage of the project would be prohibitive to many applicants. It would also be helpful for applicants to have more clarity about what qualifies as 'evidence of progress towards an agreement with potential offtakers' and how the 'robustness and appropriateness' of these offtakers will be evaluated.

Scottish Renewables agrees with the proposed approach regarding hydrogen blending as an offtaker. Funded projects in the first tranche of Strand 3 might require blending at a later date. However, we would like to note that we would not support proposals to allow blending at this time as this would pre-empt the Government decision next year on whether or not to allow up to 20% blending in the gas grid.

Scottish Renewables supports the requirement for applicants to have identified an electrolyser supplier. However, we believe applicants should not then be tied to this supplier and should have the option to hold a competitive procurement process prior to final investment decision.

In terms of demonstrating access to finance, it would be inappropriate to require applicants for funding to have secured a commitment of finance at this stage of the project as it would be too early for financiers to provide such a commitment. Applicants should instead be able to secure financing by the time of agreement signing. Further clarity on what qualifies as evidence of access to financing would also be welcome.

In terms of administering the eligibility check, a three-month window to complete applications would be desirable but this window should not be any shorter than one and a half months. Applicants should also have a window of at least one week to correct any obvious errors in their application and should be notified of any updates via email rather than being required to check the portal.

It would also be helpful to applicants if a regularly updated list of Frequently Asked Questions could be made public.

2. Do you agree with the proposed evaluation criteria for the first 2022 HBM/ NZHF electrolytic allocation round? Yes/ No/ Don't know. If not, please explain why.

Scottish Renewables agrees with the proposed evaluation criteria but has a number of comments.

We believe that the weightings for the evaluation criteria are too evenly split.

For example, the 20% weighting for economic benefits should be lower. The purpose of this allocation round should be primarily to demonstrate hydrogen production and use and stimulate the beginnings of a hydrogen market, not earn an early return on the funding deployed. The weightings should therefore reflect this by prioritising delivery of electrolytic hydrogen projects.

The value-for-money aspect for Government will come later as the green hydrogen market will develop sooner and faster as a result of these demonstration projects. Taking this approach will likely deliver more economic benefits overall as the growth achieved now will be compounded in the long run as the green hydrogen sector begins to develop under its own momentum.

Another example of the weightings being too evenly split is the 15% weighting for emissions which we feel is too high. All projects must meet the Low Carbon Hydrogen Standard so this in effect largely ends up distinguishing between projects based on whether or not they use grid electricity in the early years of operation, and, therefore, to an extent, replicates the points awarded for additionality. We would therefore recommend lowering this weighting as it is only loosely focused on the merits of a project and instead seems to be more a test of a project's operating philosophy which could change in the future.

We propose that a more appropriate weighting of the evaluation criteria would be: Deliverability (50%), Emissions (5%), Additionality of Electricity Source (5%), Cost Considerations (20%), Economic Benefits (10%), Hydrogen Market Development and Learning (10%).

Regarding additionality, it should be stated for clarity that additionality is not a requirement and that projects that have no additionality will not be disqualified from the allocation round. Scottish Renewables is also of the view that there should be positive scoring for projects where additional renewables will be added later.

When evaluating the cost of projects, there needs to be consistent evaluation of the Levelised Cost Of Hydrogen (LCOH) across different types of projects and technologies so assessors can compare like with like. Models for calculating LCOH should therefore be standardised as far as possible.

3. Do you agree with the proposed portfolio factors? Yes/ No/ Don't know. If not, please explain why.

Scottish Renewables agrees with the proposed portfolio factors, however, more clarity and guidance is needed on the portfolio factors that will affect project selection.

4. Do you agree with our high-level approach to agreeing a HBM and CAPEX offer? Yes/ No/ Don't know. If not, please explain why.

Scottish Renewables does not support the proposal for a sealed bid process for agreeing a HMB offer. Whilst we recognise the Government's strategic objective to enable projects to deploy at scale at the earliest opportunity, it is difficult to visualise how a sealed bid process would operate, including how the process would be managed and when decisions would be made.

5. Do you think up to 20% CAPEX co-funding alongside HBM support is sufficient to enable electrolytic projects to take FID? Yes/ No/ Don't know. Please explain your answer.

No. Applicants will typically require more than 20% CAPEX co-funding to reach FID as they are taking significant risks such as needing to prove the ability of offtakers to take long-term hydrogen supply contracts and there being considerable uncertainty over OPEX.

6. For agreeing the HBM offer, would you be in favour of having different pathways or negotiation approaches for projects? Yes/ No/ Don't know. If so, do you have any suggestions on how those pathways or approaches might look?

Scottish Renewables does not support having different pathways or negotiation approaches until the UK Government moves to competitive allocation in 2025.

7. Do you have any suggestions on what approaches could be used to differentiate projects and determine which pathway a shortlisted project goes into? What criteria would you use (e.g. MW)? What threshold would you use (e.g. 40MW)?

Scottish Renewables does not support the proposal for sealed bids to be used to agree a HBM/NZHF offer so, if a split is to be used, we would prefer this to allow most projects to be able to reach agreement via bilateral negotiations. For example, in terms of MWs we recommend that the threshold should be 200MW allocated by bilateral negotiation and 50MW by sealed bid.

We would propose that projects allocated to the sealed bid pathway should be smaller projects which have less resource to carry out bilateral negotiations. A split with these parameters would by default set a cap on the size of projects taking part in the sealed bid process.