

To the Heads of Cabinet of
Commission President Ursula von der Leyen
Executive Vice-President Frans Timmermans
Energy Commissioner Kadri Simson
Internal Market Commissioner Thierry Breton
Transport Commissioner Adina Valean

To the Director-Generals and Deputies of
DG ENER, DG GROW, DG CLIMA and DG MOVE

24 March 2022

Third joint industry letter on the upcoming Delegated Act on Renewable Hydrogen

Dear representatives of the European Commission,

Following our previous exchanges, we would like to share our current assessment of the drafting of the Delegated Act (DA) on Article 27(3) of the Renewable Energy Directive (RED II), which we consider of utmost importance for the ramp-up of renewable hydrogen in Europe.

Our industry alliance's primary motivation of is to rapidly unlock the green hydrogen potential in Europe asserting the industry's position on the global market. We believe that in order to achieve this goal, it is necessary to equally acknowledge the various purposes green hydrogen will serve in the future - be it as a means for increasing the efficiency of the electricity system or as a means for decarbonizing hard-to-abate sectors. Depending on the view, the role of hydrogen changes profoundly:

In the first view, hydrogen is primarily supporting the electricity system, by smoothening electricity consumption as well as increasing system efficiency. Here, hydrogen production is secondary and hydrogen is mainly produced if it benefits the electricity system.

In the second view, hydrogen is primarily seen as an industrial commodity. Here hydrogen is an important input factor for industrial processes and production and it plays a crucial role for the diversification of energy supplies. Hence, hydrogen needs to abide by the requirements for industrial goods: steady availability, good quality, necessary quantity and affordability.

At the moment, the first view seems prevalent when it comes to designing rules for hydrogen production using renewable electricity in the upcoming DA. Consequently, the criteria are being designed in such a strict manner that affordable existing renewable generation is excluded, PPAs would need to be considerably oversized to provide sufficient full-load hours of electrolyzers due to strict temporal correlation and the benefits of the internal market for electricity are undermined by strict geographical limitations. In reality, all these criteria counteract the flexibility deployment required to optimize the future energy system.

This approach does not cater to the requirements for industrial commodities. On the contrary: Overly strict criteria will severely limit the availability of renewable hydrogen and also increase its price, and thus, further widen the financing gap between renewable and fossil hydrogen, which is considerably less expensive.

The European Parliament's recently published draft report on the revision of the RED II ("RED III") proposes a new approach that emphasizes the industrial view concerning the criteria for renewable hydrogen: It strives to ensure a fast ramp-up of the European hydrogen market, while strengthening the electricity system by increasing renewables production through faster permitting and ensuring additionality at the overall system level.

At this point, the Parliament's and the Commission's approach are diverging, creating a situation where regulatory continuity is at stake. We therefore strongly recommend to the European Commission to take the Parliamentary debate on this matter already into account when drafting the current DA. Such a foresightful approach would avoid a regulatory rupture between the DA and its subsequent revision due to a revised RED III. This is of high importance to ensure stable investment conditions which are needed to kick-start green hydrogen projects now.

We would like to reiterate our input which is compatible with the requirements of Art. 27(3) RED II. Therefore, please see here again our concrete suggestions as described already in early December. We believe these could be a starting point for a compromise between the aforementioned diverging political approaches.

The Delegated Act shall create a **first-mover period** until the **end of 2027**:

- 1) Regarding **additionality**: Grid connected projects commissioned before that date can contract **existing renewable plants** that are not or not anymore subsidised, regardless of whether they have been repowered or not. Those plants are immediately available and can be operated at lower cost. This first-mover period realistically mirrors the differing lead times of new renewable plants – suffering from very long permitting procedures all over Europe – and of hydrogen facilities.
- 2) Regarding **temporal correlation**: Grid connected projects should demonstrate that hydrogen is produced **in the same month** as the renewable electricity. The shorter the balancing period, the bigger the gap to finance green hydrogen is and hence the higher the need for public funding becomes.
- 3) Regarding **geographical correlation**: To facilitate industry decarbonisation and early development of on-site projects, the correlation should be interpreted at Member States' level, and allow for a certain amount of cross-border imports.
- 4) To maintain investment certainty, a **grandfathering rule** is needed: Projects commissioned until the end of 2027 should benefit from the first-mover rules **until 2030**.

Also, please be aware that time is of the essence: Industry is waiting for this DA now a very long time and needs investment clarity as soon as possible. The delay of the DA and the resulting uncertainty has already impacted the starting point of projects. This is an additional reason to justify a longer phase-in period. Overall, a speedy decision on the DA is crucial.

This is also true in light of the current developments: The war started by the Russian leadership against Ukraine has profoundly shocked us all on a personal level. On a professional level it once again reaffirmed the necessity for a fast ramp-up of domestic renewable hydrogen production. We welcome that this is one of the cornerstones of the European Commission's REPowerEU Communication and spelled out in a target of at least 80 GW additional renewable capacity dedicated to produce renewable hydrogen.

The companies of this alliance stand ready to contribute to a quick and well-designed solution and we are looking forward to your response.

Kind regards,

The representatives of the following companies

