

Auctions-as-a-Service for Member States

Concept Note

1. PILOT AUCTIONS UNDER THE INNOVATION FUND

As announced in the European Hydrogen Bank Communication¹, the Commission will launch a first pilot auction for renewable hydrogen production on 23 November 2023, with a budget of EUR 800 million, coming from the Innovation Fund. This pilot auction will select projects to receive a subsidy as a fixed premium, i.e. in EUR/kg of verified and certified RFNBO hydrogen produced. This auction is a new financial mechanism at the EU level with several advantages, notably in terms of cost-efficiency in awarding the support, connecting demand and supply, unlocking private investment and creating vetted price signals that can form the core of future market formation. Finally, compared to grants programmes, the auction mechanism will be administratively leaner.

The Commission has been developing the economic design for the pilot auction and published Draft Terms and Conditions (T&Cs) for stakeholders' consideration. After evaluating and incorporating stakeholder feedback, the <u>final version of the economic</u> T&Cs was published. The auction call will open formally on 23 November 2023 on the <u>EU's Funding and tender portal</u>, but the final economic T&Cs enable potential bidders to prepare their bids already in advance. This pilot auction will allow the Commission to collect reliable data about the renewable hydrogen project pipeline in the EU, the level of competition, the costs of renewable hydrogen production and the types of projects interested in such support. Experience from the first auction will be fed into future rounds of renewable hydrogen and additional auctions that could be developed for other decarbonisation technologies/products.

The auctions will be implemented by the Commission's executive agency, CINEA.

¹ COM(2023) 156 final

Commission européenne/Europese Commissie, 1049 Bruxelles/Brussel, BELGIQUE/BELGIË

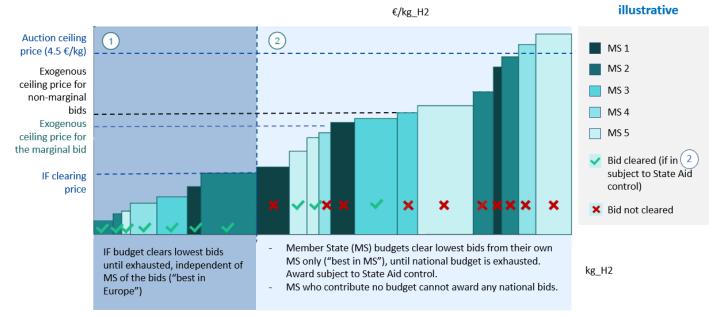
2. RATIONALE FOR AUCTIONS-AS-A-SERVICE

In the European Hydrogen Bank Communication, the Commission has proposed to offer the auctions developed at the EU level "as-a-Service" to Member States. This would enable Member States to contribute their own financial resources for awarding support to <u>additional projects located on their territory</u> while relying on an EU-wide auction mechanism to identify the most competitive projects. Contributions are voluntary.

Such a possibility can play a significant role in the nascent hydrogen market or markets for other decarbonisation technologies/products where public subsidies may still be needed to incentivise early projects. For these new markets, it is crucial to prevent market fragmentation with different national support schemes and the resulting price signals². Project developers, too, would benefit from a single set of rules for winning a subsidy across Europe rather than having to apply to various funding schemes with different application procedures and timelines. The service can further save administrative costs in developing several support schemes by different Member States and bring such subsidies to the market earlier when they are needed the most.

3. THE AUCTIONS-AS-A-SERVICE" (AAAS) CONCEPT

With an "auction-as-a-service" offer, the Commission would run a single auction identifying the projects to be awarded first from the Innovation Fund budget and then from the national budget(s). In this way, the Innovation Fund budget is spent on the most competitive projects, thus awarding the highest possible volume (of renewable hydrogen production in case of the pilot auctions). This approach would show the <u>advantages of an EU-wide market and EU-wide competition</u>, i.e. awarding support to the most competitive projects across the Union (e.g. in more RES-endowed regions or regions that have already relevant industrial clusters) with Union funds. On the other hand, *additional Member State* resources would support projects in that specific Member State.



The auction clearing system is illustrated by the graph below:

² A key goal of the EU-wide auctions is price discovery (finding out the levelized cost of renewable hydrogen in Europe). Prices resulting from various kinds of support schemes with different rules are hard to compare.

Member States who have committed to a national auction budget would award projects on their own territory beyond those awarded by the Innovation Fund budget, fully respecting the ranking resulting from the auction. Member States would also be responsible for contract signature, monitoring and payments. The Commission will provide guidance on the minimum requirements for contracts to be signed at the national level.

Once Member States contributions are known, the 'service' consists of:

- The Commission provides the CEEAG-compatible auction design to Member States.
- The Commission facilitates State aid notifications of Member State schemes through pre-filled notification templates and streamlined dialogue during pre-notification.
- CINEA conducts the qualification checks on proposals, as foreseen in the auction design, and informs Member States about the resulting price ranking of all projects that pass the qualification requirements from the participating Member States. An exogenous price ceiling formula will be established at the EU level³.
- The Commission provides guidance for minimum requirements for contracts to be signed at the national level between project developers and Member States authorities.
- The possibility of common knowledge-sharing activities from projects awarded by the Innovation Fund and national budgets, as well as sharing of "lessons learned" on the auction design and implementation.

Ranking of projects beyond the Innovation Fund budget and below the relevant price ceilings to be funded by a given Member State.

<u>Member States would then award support to the projects</u> located on their territory, which passed the eligibility checks and made bids within the national budget constraint and the price ceiling for the national compartment, <u>provided that the Commission approves the State aid scheme</u>. Member States would need to respect the ranking resulting from the auction fully.

National contributions would not enter the EU or Innovation Fund budget at any point and, therefore, remain State resources.

The Commission would play an active role in the organisation of knowledge- and bestpractice sharing for all awarded projects, both at the EU and national level.

4. NATIONAL CONTRIBUTIONS AND STATE AID CLEARANCE

Before the auction is organised, it will be necessary to know Member State contributions. These contributions could come from national revenues from ETS auctioning, the Modernisation Fund or other sources. As national contributions represent state aid, a formal

³ A price ceiling on the Member State specific part of the supply curve of projects bidding, expressed as a factor 3 * the price of the last project that cleared in the Innovation Fund section of the supply curve that is not from that same Member State (=exogenous). The formula will be established at the EU level.

notification of a scheme (or preferably pre-notification) would have to be made by the respective competent national authorities. State aid would be in the form of a scheme (as multiple projects could benefit). In case of support for renewable hydrogen production, it would need to respect the provisions of the <u>Guidelines on State aid for climate</u>, <u>environmental protection and energy (CEEAG)</u>. The Commission aims to facilitate the notification of such schemes and specifies the conditions for a sufficient volume of competition.

For national contributions, Member States would have to <u>notify (or preferably pre-notify)</u> <u>a State aid scheme before the auction</u> to verify the respect of State aid rules.

The notified state aid scheme would comply entirely with the environmental conditions and subsidy allocation/award process of the Innovation Fund. The scheme should not introduce additional pre-selection/award criteria compared to those under the Innovation Fund auction.

The approval of the state aid scheme is dependent on full compliance with State aid rules. One important compatibility criterion is a sufficient level of competition in the auction. To avoid the situation that the final approval can only be made once the auction is cleared and the level of competition is revealed, the design of the scheme will need to include features that ensure upfront the necessary level of competition (e.g. commitment to reducing the auction budget in the next round should there be insufficient competition and exogenous Member State specific price ceilings). To facilitate and streamline the pre-notification of such State aid schemes, the Commission will provide guidance to Member States signalling their intention to use the EU AaaS for their national auction. The pre-notification should start well ahead of the launch of the EU auction to facilitate the adoption of a State aid decision before the auction is launched.

Importantly, pooling the resources from the Innovation Fund and Member States means that the auction could become less competitive. Therefore, the auctions will feature safeguards against such a situation, including possible project pipeline analyses by participating Member States, an exogenous Member State specific ceiling price, and resizing the budget between the auction rounds in function of the expected level of competition.

5. HOW WILL IT WORK IN PRACTICE?

Member States that wish to participate must allocate national budget to participate in AaaS and follow the State aid notification process as per the provisions of the CEEAG before the launch of the respective Innovation Fund auction.

Procedurally, AaaS will function as follows from the Member State perspective:

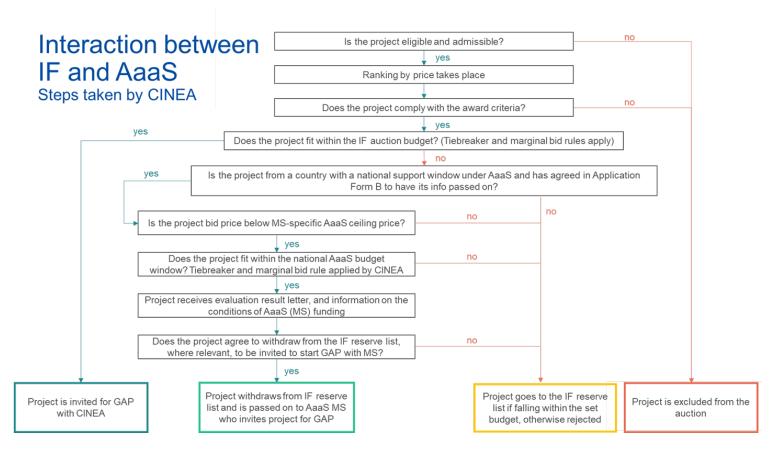
- CINEA will launch the Innovation Fund pilot auction call on the announced launch date ("Auction call opening" in the EU's Funding and tender portal).
- Project developers will submit project proposals via the Commission's Funding and tender portal and indicate whether they are interested/willing to be proposed for a national AaaS funding window as a result of the Innovation Fund evaluation.
- Projects across Europe will submit bids, which will be assessed, ranked, and cleared in line with the Auction's Terms and Conditions.

- Following the ranking of projects, the lowest bids will be cleared under the Innovation Fund budget until the budget is exhausted.
- CINEA will include a certain number of eligible projects on a reserve list. These are projects that meet the auction criteria, meaning they (a) are not awarded as an Innovation Fund project, and/or (b) are a project from a Member State that has agreed to participate in AaaS and/or has not indicated their willingness to be proposed for a potential national funding window, (c) having agreed to participate in the AaaS, their bid price is not below the Member State's specific AaaS ceiling price or they don't fit in the national AaaS budget. This means CINEA could contacted them should a project awarded under the Innovation Fund drop out from the Grant Agreement Preparation (GAP) with the Innovation Fund.
- Pre-selected national projects, i.e. projects that:
 - o passed the qualification criteria
 - $\circ~$ in terms of bid ranking cannot be awarded under the Innovation Fund budget
 - o marked their interest in AaaS
 - fit within the national funding windows
- will be communicated to the Member State participating in AaaS, as defined in the call text.
- Member States are obliged to respect the price-based ranking and the lowest bids will be cleared accordingly under the national funding windows.
- Initially, the Member State will receive the list of pre-selected national projects. In the case of dropouts from Member State grant agreement preparation, the Member State will coordinate with the Commission the transfer of additional national projects from the Innovation Fund reserve list. In practice, these additional national projects will be asked by CINEA if they are willing to be transferred. Projects will be informed of the possible additional conditions of Member State funding. Those accepting will irrevocably withdraw from the Innovation Fund's auction reserve list.
- A price ceiling will apply to the Member State supply of projects bidding, expressed as a factor of three times the price of the last project awarded Innovation Fund support that is not from that same Member State. This approach will avoid strategic bidding for national funding in the auction and ensure participants submit competitive bids. The ceiling price for AaaS will always be limited to the price cap of the Innovation Fund's auction.
- Innovation Fund projects are awarded according to the auction ranking until the maximum budget of the auction call is allocated (subject to the application of the tiebreaker rule and the marginal bid rule). The non-awarded project budget will be accrued back to the Innovation Fund.
- CINEA is responsible for awarding, contracting, and monitoring support for projects within the Innovation Fund budget.

- Member States are responsible for awarding, contracting, and monitoring support for projects within their respective budgets.
- Member States will be invited to lessons learned and knowledge-sharing exercises conducted under the umbrella of the Innovation Fund.



The specificities of how the Innovation Fund auction mechanism and AaaS mechanism interact, distribute projects, and communicate with each other are articulated below:



IF A PROJECT DROPS OUT DURING THE INNOVATION FUND'S GRANT AGREEMENT PROCESS (GAP), THE FOLLOWING STEPS APPLY:

Step 1: CINEA will contact the next project on the Innovation Fund reserve list as long as:

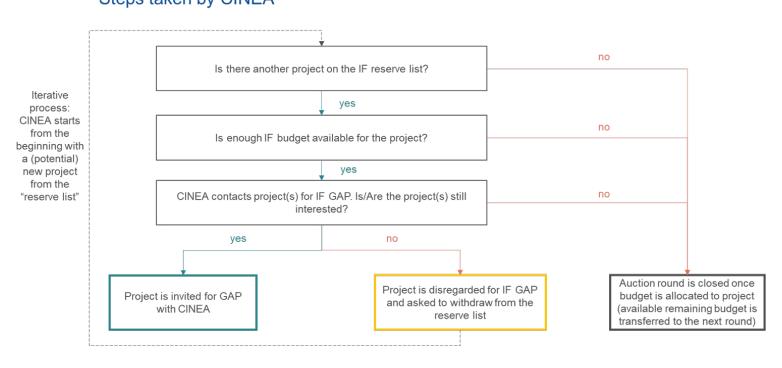
- a) There is enough Innovation Fund budget available for the project.
- b) The project is still interested in pursuing the grant agreement process.

Step 2: <u>If</u> there is not enough Innovation Fund budget available to support the next project on the reserve list <u>and/or</u> the project is not interested in pursuing the grant process, the next project on the reserve list is considered. This process goes on until a project on the reserve list is identified that meets both the criteria outlined in Step 1 a) and b). When there are no more projects on the list, the auction round is closed, and any remaining budget is transferred to the next round.

Step 3: If the identified reserve list project is within the Innovation Fund budget and is interested in pursuing the grant process, it will agree to be taken off the reserve list.

Step 4: The identified reserve list project begins the Innovation Fund GAP.

Drop out during IF GAP Steps taken by CINEA



IF A PROJECT DROPS OUT DURING THE MEMBER STATE'S AAAS GAP, THE FOLLOWING STEPS APPLY:

Step 1: The Member State will contact CLIMA to inform them that there is additional national budget available.

Step 2: CINEA will contact the next project on the Innovation Fund reserve list as long as:

- a) The project is from a country with a national support funding scheme and has agreed in Application Form B (AFB) to have its info passed on.
- b) The project bid price is below the Member State's specific AaaS ceiling price and the project fits within the national budget window.
- c) The project agrees to withdraw from the Innovation Fund reserve list.

If the project bid price is not below the ceiling price or the project does not agree to withdraw from the reserve list, this process step goes on until a project on the reserve list is identified that meets both the criteria outlined in Step 2 a) b) and c).

Step 3: If (a) there are no other projects on the Innovation Fund reserve list from countries with national support funding schemes and/or projects that have agreed in AFB to have their info passed on, or (b) the available project on the reserve list has a bid price above the Member State's specific AaaS ceiling price and/or does not fit within the national budget window, the AaaS window is closed.

Step 4: The identified reserve list project begins the Member State's AaaS GAP.

Drop out during Member State (AaaS) GAP

