



# Hydrogen Strategy – German Parliament passes law on material exemption from electricity surcharges

19 January 2021

On 10 June of 2020, the German Federal Ministry of Economics and Energy released its National Hydrogen Strategy (*Nationale Wasserstoffstrategie*)<sup>1</sup> (**German Hydrogen Strategy**) as a part of the **Covid-19 actions** to strengthen the economy. The German government sees this strategy as a central component of the on-going energy system transformation and stresses hydrogen to be a versatile energy carrier, a possible energy storage medium, an essential element for sector coupling as well as indispensable for many chemical and industrial processes. Especially against the background of the Paris Agreement's and the European Union's climate targets, hydrogen represents a possibility to decarbonize large parts of the German energy and industrial infrastructure and reach **carbon neutrality by 2050**.

Therefore, the German hydrogen strategy provides for **38 measures** to be implemented and **billions of Euros to be invested** by applying an **international and multilateral** approach. In addition, a council within the Federal Government

<sup>1</sup> [https://www.bmwi.de/Redaktion/EN/Publikationen/Energie/the-national-hydrogen-strategy.pdf?\\_\\_blob=publicationFile&v=6](https://www.bmwi.de/Redaktion/EN/Publikationen/Energie/the-national-hydrogen-strategy.pdf?__blob=publicationFile&v=6).

has already been established and tasked to monitor and support the enforcement of the German hydrogen strategy.

On 21 December 2020 the German parliament formally legislated amendments to the regulatory framework in order to move forward on some of the 38 measures. The amendments, which for the most part already came into force on 1 January 2021, contain **material exemptions** from two (of several) surcharges for electricity: The so called EEG-surcharge and the KWKG-surcharge, which combined amount to **more than EUR 67 per MWh**.

## Ambitious objectives and timeline

### Focus on green hydrogen

The German Hydrogen Strategy focuses not only on **hydrogen production** but also on the usage of hydrogen in sectors of **transport, industry and heat**. The focus is on the use of **green hydrogen** produced from electrolysis using emission-free renewable energies. However, the use of so called *blue hydrogen and turquoise hydrogen* is at least mentioned in the strategy. The latter are forms of hydrogen produced from natural gas, with the resulting carbon dioxide emissions being captured and stored in either gaseous or solid form (**CCS**). Both blue hydrogen and turquoise hydrogen are however not foreseen to be promoted but might reach Germany via imports from the EU markets.

### Two phased strategy

The German hydrogen strategy consists of **two phases**, which are to be completed on the way to

the goal of carbon neutrality by 2050: The first phase of initializes a **market ramp-up for hydrogen between 2020 and 2023**. Subsequently the second phase starts with the target to **strengthen and internationalize the market ramp-up**.

### Focus areas

To achieve the objectives mentioned above the German Hydrogen Strategy sets out specific measures in particular targeting (i) a ramp-up of hydrogen production capacity in Germany and abroad (ii) the decarbonisation of carbon intensive industries such as the steel and the chemicals industry in Germany and Europe (iii) the use of hydrogen in the transport sector and (iv) the use of hydrogen in the context of infrastructure and heat.

## Green hydrogen to be exempt from electricity surcharges

One of the measures to support a ramp-up of hydrogen production in Germany are exemptions from the numerous surcharges on electricity consumption, which cause electricity in Germany to be significantly more expensive than in other markets around the world. Against this background, the German Hydrogen Strategy promised that such exemptions from surcharges would be considered.

Intense discussions on the extent and mechanisms of such exemptions followed.

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EEG-surcharge (*EEG-Umlage*) and the KWKG-surcharge (*KWKG-Umlage*).

### Exemption from EEG-surcharge

The EEG-surcharge is part of the German support scheme for renewable energy under the German Renewable Energy Act (*Erneuerbare Energien Gesetz – EEG*), which is based on the German network operators effecting support payments to the renewable energy plants connected to their grids. The EEG-surcharge currently amounts to EURct 6.5 per kWh (i.e. **EUR 65 per MWh**).

Generally, all persons/companies that consume electricity in Germany have to pay the EEG-surcharge to the network operators. However, there are far reaching exceptions for energy intensive industries, in Sections 63 et seqq. German Renewable Energy Act, the so called special equalisation scheme (*besondere Ausgleichsregelung*).

The German legislator decided to include new exemptions for hydrogen production into the rules of the special equalisation scheme. This means that generally the same rules and procedures regarding subsidy applications and necessary documentation

## Way forward

Recent governmental publications suggest that the German government will now focus on new laws for hydrogen networks, which are envisioned to be pushed forward as early as January/February 2021.

We expect specific rules for the implementation of a pilot program for Carbon Contract for Difference (**CCfD**) to follow. The CCfD pilot is an important part of the German Hydrogen Strategy and also

vis-à-vis the German Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle – BAFA*) apply.

According to Section 69b German Renewable Energy Act, electricity consumed for the production of green hydrogen will be fully exempt from EEG-surcharge. This full exemption for green hydrogen will **enter into force** as soon as a **federal ordinance** is passed, which is foreseen to align the definition of green hydrogen with the European Renewable Energy Directive II and the corresponding discussions between German and European experts **by 30 June 2021**.

Finally, the full exemption for green hydrogen will **only** be applicable for **facilities that are operational prior to 1 January 2030**.

### Exemption from KWKG-surcharge

Subject to the requirements of Section 69b German Renewable Energy Act being fulfilled, the electricity consumed for the production of green hydrogen would also be exempt from the KWKG-surcharge, which currently amounts to EURct 0.254 per kWh (i.e. **EUR 2.54 per MWh**).

reflected in other governmental publications such as the Steel Action Concept (*Handlungskonzept Stahl*) aiming at a decarbonisation of the German and European steel industry. Answers by the German government to questions from members of parliament in October 2020 stress that the German government is eager to start the CCfD pilot still in 2021, but wants to align with the European Commission regarding European subsidy laws first.

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