

Insights

GREEN HYDROGEN: OPENING OF THE TENDERING PROCEDURE FOR FINANCIAL AID

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The hydrogen industry is starting 2025 on a brighter note after what has been described by the industry as a “blank year”.

Since 2021, France has planned to give a financial aid to selected producers of renewable and low-carbon hydrogen. The Ordinance of 17 February 2021 on hydrogen (the “**Ordinance**”) set up the legal framework governing the granting of this financial aid, and was later specified by a Decree dated 1 September 2023. These texts are codified in articles L.812-1 and R.812-1 et seq. of the Energy Code.

This is now a done deal, with the launch of the first period of the competitive tendering procedure “*No.2023-DGEC-19 (ADEME) on the financial aid for the electrolytic production of renewable or low-carbon hydrogen*”. The cumulative capacity of the projects that may be awarded during this first period is indicatively limited to 200 MW of electrolysis capacity, for an indicative total of 1,000 MW over three periods between now and 2026.

The competitive tendering procedure for each period is conducted by the French Agency for Ecological Transition (ADEME) and is divided into several stages: the **selection stage**, followed by a **competitive dialogue stage** with the French Minister for Energy open only to the selected candidates (**between 3 to 12 candidates**), and finally the **award stage** on the basis of the final aid applications submitted by the selected candidates.

To this day, the selection stage for the first period has begun and a consultation document is published on the government tender platform called “PLACE” ([link](#)). **Applications can be submitted until 14 March 2025 (noon) on this platform.** Producers can submit questions beforehand until 21 February and answers should be published before 28 February.

Candidates may take part in the procedure alone or as part of a group, but each candidate can submit only one application, and an application can relate to only one installation (possibly composed of several hydrogen production units).

In the end of the competitive tendering procedure, an aid contract will be signed with each successful candidate. This financial aid will take the form of **contract for difference ('CfD')** for a **maximum period of 15 years**. The French government has allocated €4 billion to support this scheme.

We present below the eligibility conditions (1) and the criteria that will be used to select and award the projects (2), as well as some conditions imposed on their development (3) and finally the features of the expected financial aid publicly known to date (4).

1. ELIGIBILITY CONDITIONS

The main eligibility conditions are listed below.

1.1 Projects located in France

Facilities located outside France are excluded. However, the call for applications is open to any project developer based in a Member State of the European Union (EU) or the European Economic Area (EEA).

1.2 Production of renewable or low-carbon hydrogen by electrolysis of water

Only hydrogen produced by electrolysis of water is eligible for the call for applications (in accordance with article L.812-1 of the Energy Code). In addition, projects using carbon dioxide (CO₂) capture and storage are not eligible.

To be considered **renewable**, hydrogen must be produced i) using electricity from renewable energy sources (RES), ii) with a production process that emits a quantity of CO₂ less than or equal to a threshold of 3.38 kilograms (kg) of CO₂ equivalents (eq) per kg of hydrogen produced (kgCO₂eq/kgH₂).

To be considered **low-carbon**, the production process must comply with the above-mentioned emission threshold of 3.38 kgCO₂eq/kgH₂, but the hydrogen does not have to be produced using RES. This means that hydrogen produced by electrolysis using nuclear energy can qualify as low-carbon hydrogen, which broadens the base of eligible projects.

These definitions are codified in article L.811-1 of the Energy Code and specified by an order dated 1 July 2024.

1.3 Submitted capacity between 5MW and 100MW

Project developers may choose to submit to the call for applications only part of the installed capacity of their installation (the "**Submitted Capacity**"). In other words, the application does not

necessarily concern the entire installed capacity of the installation, which may, for example, cover uses other than those eligible (see part 1.4 below).

In any case, the Submitted Capacity must be between 5MW and 100MW. The Ministry, which initially intended to limit eligibility to projects with a capacity of more than 30MW, has therefore finally decided to accept projects of various sizes, including small-scale projects. In so doing, it followed the European Commission's auction, which set the same thresholds (see conclusion below).

This is a positive signal for the hydrogen industry, as it means that the procedure is not limited to big players with major projects, at least in theory.

1.4 Submitted Capacity mainly for direct industrial use

The only eligible installations are those for which the estimated production associated with the production submitted to the call for applications (the “**Submitted Production**”) is mainly intended for direct industrial use. Moreover, the financial aid will only be granted for that part of the Submitted Production associated with direct industrial use.

The following uses are excluded from the notion of “direct industrial uses”: heating (with the exception of high-temperature thermal processes in the mineral, metallurgical or chemical industry), injection into the natural gas network, production of electricity from hydrogen, and uses eligible for incentives for the consumption of renewable or low-carbon energy in the transport sector.

This condition is part of a more general French strategy to promote a national green industry.

1.5 Newness of the installation

The construction and operation of the installation must be new. In this respect, the consultation document specifies that this implies waiting for the submission of the final aid application before starting works (except for connection works) and prevents from undertaking any investment before being finally awarded and from starting hydrogen production before the aid contract takes effect (except for the tests).

It should be noted, however, that many elements related to the development of the project must be prepared in advance, as shown by the documents to be included in the application (see points 1.6 and 2 below).

1.6 Confirmation of electricity supply and sale of production

The development of the project must be sufficiently organised as early as the application stage, since the candidate must demonstrate the following:

- at least **30% of the electricity supply** required for the Submitted Production is secured over a 10-year period. To this end, the candidate must provide memorandums of understanding or letters of intent signed with suppliers and reaching this percentage;
- at least **60% of the sale of the Submitted Production** is intended for direct industrial use and is secured over the duration of the aid, by attaching to the application a list of projected buyers and memorandums of understanding or letters of intent reaching this percentage.

For an industry still in the structuring stage, these restrictive conditions are likely to deter a number of project developers.

1.7 Various other conditions

In addition, other conditions are listed in the consultation document, including in particular:

- provide a letter of intent from a banking institution to grant a **financial guarantee** of 8% of the amount of aid applied for to guarantee the commissioning of the project (or alternatively provide for a deposit to be made with the Caisse des Dépôts et Consignations – CDC) – which is a usual condition
- source a maximum of 25% of the electrolyser stacks from outside the EU.

2. SELECTION AND AWARD CRITERIA

To select the applications admitted to take part in the competitive dialogue, ADEME will check the eligibility conditions and the completeness of the application file, and will pay particular attention to the **technical and financial capacities** of the candidate, on the basis of the documents listed in the consultation document.

Some of the documents are particularly demanding for greenfield projects and require advanced preparation, despite the fact that the installation is new. In particular, the following three memos must be provided:

- a **financial memo** detailing the means of financing the project;
- a **technical memo** indicating inter alia the provisional commissioning date and the main development and construction milestones, but also – **and this is unusual and may prove difficult to answer to – details on the EPC and O&M contracts already signed with shortlists of contractors;**
- a **competency memo** demonstrating the ability to develop and manage a complex project with high technological risks, including 3 to 5 industrial projects with a total investment cost superior to 20 million euros for reference – which raises concerns for start-ups.

If more than 12 candidates meet these minimum requirements, applications will be ranked according to the two selection criteria below:

- **the degree of maturity of the project**, marked out of **4 points**, as the **French government expressly does not wish to enter into discussions for projects that are “insufficiently advanced in their design and preparation”**. The consultation document is very clear on this discriminating criterion, and candidates are expressly encouraged to contact the grid operator as soon as possible to ensure that the installation is connected promptly;
- **the number and relevance of the industrial project references**, marked out of **1 point**.

Candidates will then be notified by the Minister for Energy whether they have been rejected or selected to take part in the competitive dialogue.

The purpose of this dialogue will be to discuss and adjust the clauses of the draft **specifications**. Some topics for discussion are already planned (security of supply, calculation of the financial aid, price, etc.). It should be noted in this respect that a draft was published for consultation a year ago, until January 2024, and can provide information on the clauses to expect, although it is likely that the text will change on a number of points.

Final aid applications will be prepared and submitted on the basis of the finalised specifications.

These applications will be assessed on the basis of two types of award criteria:

- the **price criterion**, which will account for at least **70%** of the total weighting: this criterion will be assessed on the basis of the level of subsidy requested in euros per kg of hydrogen produced, with the final bid not to exceed a **maximum price of €4/kg** (as for the European Commission’s auction – see conclusion below);
- **non-price criteria**, which will account for a maximum of **30%** of the total weighting: these criteria will relate to the energy, technological and environmental impact of the project.

The technical and financial capabilities of the candidate must be maintained at a level at least equivalent throughout the competitive tendering procedure. There are also rules governing the composition of candidates and groupings during the competition procedure.

3. CONDITIONS IMPOSED ON THE DEVELOPMENT OF THE PROJECT

Being awarded goes with a number of constraints and conditions that must be respected during the development and construction of the project, in particular:

- the project must be carried out by a dedicated **project company** (SPV) registered in France, in compliance with the final aid application and the specifications. This SPV must be the

beneficiary of the administrative authorisations and project contracts;

- **the financial guarantee must be provided no later than 8 weeks after the award** and remain valid until commissioning;
- **the financing necessary to complete the installation must be finalised no later than 30 months following the signing of the aid contract** (except in exceptional and duly justified circumstances);
- **the installation must be completed no later than 60 months following the signing of the aid contract, failing which the duration of the contract will be reduced by the same amount as the delay** (except in exceptional and duly justified circumstances). Initially, the commissioning date was set to be before 31 December 2026. The consultation document thus corrects the delays in organising the call for proposals.

4. THE CHARACTERISTICS OF THE FINANCIAL AID

A contract for difference (“CfD”) will be signed with the State (or another legal entity governed by public law), in accordance with the conditions set out in the specifications and the characteristics of the project determined in the final aid application.

The CfD is a premium proportional to the energy produced, calculated as the difference between a reference price, similar to the current price, and a reference market price.

Some elements are already governed by the Energy Code, which specifies that it may be either an operating aid or a combination of an investment aid and an operating aid.

In addition, the amount granted cannot result in the total return on fixed capital (resulting from the combination of all the projected revenue from the producer’s installation and the financial or tax aids it receives) exceeding “*a reasonable rate of return on capital, taking into account the inherent risks of the concerned activities*” (article L.314-20 of the Energy Code). In this context, the successful candidate may be asked to forego certain financial or tax aids.

For the record, the draft specifications that were published for consultation until January 2024 provided for a maximum internal rate of return (IRR) of 8% (before projected tax), under penalty of the excess gain being paid back to the State. In the event of the project’s economic performance falling below this maximum IRR but exceeding the forecasts of the financial model, it was planned that the producer would retain 25% of the gain and that 75% would be paid back to the State.

The specifications will also set out the terms and conditions relating to the payment of the financial aid;

In a context of governmental instability, let us hope that the call for proposals will be as successful as the industry has hoped, and that a sufficient number of projects will be at a stage of development mature enough to satisfy the requirements.

As state aid subject to the obligation to notify the European Commission, the French financial support remains conditional on a favourable decision by the European Commission on the basis of the finalised specifications (the prenotification procedure on the basis of the consultation document for the 1st period being currently underway).

In addition, the European Commission is also offering a financial aid to the hydrogen sector via the European Hydrogen Bank. At the end of 2024, The Commission opened an auction to award 1.2 billion euros to renewable hydrogen production projects. A previous auction had awarded 720 million euros to 7 projects (but none under the French flag).

Continued efforts must be made to ensure the competitiveness of European projects, given the massive investments from the United States under the previous presidency, the future of which has however become uncertain. Green hydrogen production is a high value-added industry for France and, more generally, for the EU.

This article was drafted with the assistance of Thomas Philippe, trainee.

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MEET THE TEAM



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