Contract Term and Capital Repayment Structure

Hydrogen business model stakeholder workshops

3 August 2022

Agenda

Today, we will be discussing two items:

1. Contract Term
2. Capital Repayment Structure

Aims

- Work together with projects, investors and other interested parties to deliver an investable and value for money hydrogen business model
- Stakeholder workshops aim to improve policy development by enabling us to test initial policy thinking with projects and potential investors
- Today we'll go through each agenda item and briefly outline what the issue is, what we're thinking and why
- We'll then invite views from you to understand the issue more as projects and investors

Note: The content in the following slides does not represent BEIS policy, but provides ideas for discussion

The session will be recorded for BEIS internal use only

Deciding on Contract Term

How have we thought about this question?

- We considered several key areas in developing this thinking:
  - **Market development:** allow time for a LCH market price to emerge and a liquid market to form.
  - **Investability:** provide adequate level of confidence to investors via a stable and predictable cashflow to enable projects to raise the most efficient private sector capital.
  - **Value for Money:** avoid locking into contracts which are longer than necessary.
  - **Precedent:** maintain familiarity to investors and reflect lessons learned from other schemes.
  - **Support in consultation**: Over half of those that responded to the question on contract duration felt that the most appropriate length of contract was around 15 years, with some subtle variation between those saying exactly 15 years and others “15-20 years” or “maximum / minimum 15 years”.

Other factors

- Optimise for technology: variation in lifetimes over different electrolytic and CCS-enabled technologies means no simplistic solution, evidence from consultation did not present a compelling reason to vary term by technology or project size.

Guiding context on Contract Term (sample)

- Low Carbon Electricity CfD: 15 years
- ICC: 10 years with option to extend up to 5 years (conditional on certain criteria being met)
- DPA: 12-15 years (developer dependent)
- SDE++ (Netherlands): 12-15 years (technology dependent)

Deciding Capital Repayment Structure

How have we thought about this question?

- We considered several key areas in developing this thinking:
  - **Suitability:** Our current thinking is that investors in the HBM are akin to investors in the renewables market. This lowers the need for a shortened capital repayment structure given the longer time horizon and greater certainty that projects will be producing beyond the end of the contract.
  - **Simplicity:** allows ease of implementation and does not create unnecessary complexity within the model.
  - **Support in the consultation:** responses indicated a general expectation that the capital repayment structure would match the length of the term.

Guiding context on Capital Repayment Structure (sample)

Renewables CfD: Across the term

ICC: 5 years (subject to capture rates*)

Waste ICC: 10 years (subject to capture rates*)

SDE++ (Netherlands): Across the term

*https://www.gov.uk/government/publications/carbon-capture-usage-and-storage-ccus-business-models

Discussion Questions

Contract Term

- Do you agree with our current thinking?
- What is the preferred contract term? Why?
- Does our current thinking work with your planned financing approaches?

Capital Repayment Structure

- Do you agree with our current thinking?

Thank you and questions

Thank you for joining today's stakeholder workshop

We appreciate that you continue to provide invaluable insight and feedback on the hydrogen business model

Any further questions, please contact one of us directly or use the hydrogen business model inbox

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You can find the Low Carbon Hydrogen Business Model Indicative Heads of Terms on gov.uk here