Early-stage investments in H2 infrastructure face technological risks and cross-chain risks, amongst others

- Using novel and untested technologies entails risk of construction delays, opex and capex overruns and operational disruption

- The market success of early-stage H2 investments typically depends on few counterparties along the value chain:
  - H2 production: withdrawal of anchor off-takers or unavailability of H2 transport infrastructure or CCS infrastructure are key risks
  - H2 transport: limited number of customers and uncertainty regarding available H2 quantities creates volume risk
  - H2 off-take: uncertainty regarding availability of sufficient quantities and regarding access to transport infrastructure are key risks

- The combination of immature technology risks and mutual dependencies has the potential to result in delays and an under-sized H2 network (relative to projected demand)
German H2 core network is considered a milestone and a signal for players along the value chain

- Federal network agency to confirm H2 core network
- CH4 TSOs as designated operators of H2 network
- Key features of core network set politically (interconnection points, coverage of industries, federal states and IPCEI projects)
- Projected investment cost of €19.8bn (compare to €239.7bn until 2045 in NDP of electricity TSOs)
- Full network expected to be operational in 2032, constructions to commence in 2024
Draft law creates a roadmap and entails a mechanism to address key risks…

Draft law entails …

1. Process for regular H2 network development process (outside of H2 core network)
2. Financing mechanism for H2 core network

Network costs and tariffs

Cost-reflective tariff

Ramp-up tariff

Case A: cost coverage

Case B: no cost coverage

Amortisation account and deductible (Case B)

BNetzA to set ramp-up tariff

Government can reduce deficit through transfer payments from 2035 onwards

Deductible increases to 24% in 2055

Government can suspend mechanism from 2038 onwards
… but some questions remain, particularly regarding ability to attract private capital

**Attractiveness of proposed risk-return profile**
- Proposed return on equity of 5.47 % (nominal, post-tax) for 2025-2027 appears low:
  - New investments in electricity networks earn higher rate despite lower risks
  - Average German corporate bond yields stand at 4.23 % (November 2023)
- Potential mitigants: increasing allowed return, decreasing deductible, excluding repurposed pipelines from deductible

**Stability of proposed mechanism**
- Proposed mechanism runs until 2055, laws can change, and it appears questionable whether market participants will have sufficient trust in proposed mechanism to commit capital
- Potential mitigant: agreement on public-private contract between network operators, regulator and state

**Proposed tariffication**
- Regulatory tariff-setting process is likely to be contentious
- Uniform post-stamp tariff does not allow for locational price signals and implies a shared liability in case of underutilisation on single pipelines
CONTACT US

Lorenz Wieshammer, CFA
Director
Berlin +49 3070015 0632
lorenz.Wieshammer@nera.com
GLOBAL LOCATIONS

NORTH AMERICA
- Boston
- Chicago
- Denver
- Houston
- Los Angeles
- Mexico City
- Miami
- New York City
- Philadelphia
- San Francisco
- Toronto
- Washington, DC
- White Plains, NY

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MEET THE EXPERT

Lorenz Wieshammer
Director
Berlin

Experience
- Energy market design and infrastructure regulation
- Valuation in the context of transactions, litigation and arbitration

Education
- Chartered Financial Analyst (CFA)
- MSc Economics (London School of Economics)
- BSc Economics (Mannheim University)

Publications (co-authored)