

Selected Companies

ITM Power (ITM LN)*
Powerhouse Energy (PHE LN)*
SIT (SIT IM)*
Drax Group (DRX LN)*
SIMEC Atlantis (SAE LN)*
Velocys (VLS LN)*

UK HYDROGEN STRATEGY ANNOUNCED

The UK government has announced its long awaited hydrogen strategy and also launched a consultation on funding hydrogen production. The strategy confirms support for both green and blue hydrogen production as well as for the replacement of natural gas in around 3m homes. Subject to the consultation, the price differential between fossil fuel solutions and hydrogen will be subsidised by the use of contract for differences based on the existing UK support for offshore wind. As with the earlier energy white paper, a lot of decisions on detail have been deferred for later publication but broadly this is very supportive of the development of a wide ranging hydrogen industry in the UK. We also see it as a move which is likely to encourage support for this key emissions solution elsewhere in the world.

5GW of hydrogen capacity by 2030

The UK government is targeting 5GW low carbon hydrogen production capacity by 2030. There will be a twin track approach supporting both green and blue hydrogen but with full production strategy detail to come in 2022 along with a hydrogen sector development plan. A low carbon hydrogen standard will also be introduced. Financial support will follow a contract for difference (CfD) approach as used to support offshore wind. Essentially this allows government to set demand but the market to determine supply and price. Once in place price is guaranteed which should support low cost infrastructure finance for hydrogen production. There will also be a £240m Net Zero Hydrogen Fund to support deployment of production plants. Other funds and competitions have been announced to trial and develop related solutions. Network and storage infrastructure is to be reviewed.

Up to 35% of UK energy from hydrogen by 2050

Uses of hydrogen in the UK economy will include the more obvious transport and industry applications with shipping, HGV transport and rail identified. The strategy also aims to replace natural gas in powering c.3m homes directly. The government is also assessing a 20% hydrogen blend in the existing gas network. Overall, 20% - 35% of UK energy consumption could be hydrogen based by 2050. In an unrelated announcement, the United Nations Economic Commission for Europe has stated that international climate objectives will not be met if nuclear power is excluded from the mix. We see this as positive for hydrogen as we see nuclear to hydrogen production as one of the few ways of managing nuclear's relative inflexibility in a low carbon power network.

Benefits to listed companies

We see introduction of a CfD regime as specifically helpful for **ITM Power** (ITM LN) and **Powerhouse Energy** (PHE LN) in supporting the deployment of hydrogen refuelling stations in the UK with both companies having offerings in this area. The use of hydrogen for domestic use in 3m homes is likely to benefit **SIT** (SIT IM) who are suppliers of hydrogen control and safety valves and meters and is a meter developer for the key UK Hy4Heat trial. More tangentially we see development of blue hydrogen as supporting carbon capture and storage with **Drax Group** (DRX LN), **SIMEC Atlantis** (SAE LN) and **Velocys** (VLS LN) all potentially benefitting.

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