



# Department for Energy Security & Net Zero

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Convener of the Committee  
Economy and Fair Work Committee  
Scottish Parliament

9 June 2025

Dear Colin,

Thank you for the opportunity to join a meeting of the Economy and Fair Work Committee on 21 May 2025 on Grangemouth's Industrial Future. As mentioned during the session, I am writing to respond to some of the issues raised at that meeting regarding hydrogen as it is not an area directly in my remit.

In response to the specific points raised:

## **Hydrogen blending**

In December 2023 the previous government set out there could be potential strategic and economic value in supporting the blending of up to 20% hydrogen by volume into the GB gas distribution networks in certain targeted circumstances that align with the strategic role of blending.

The strategic policy decision announced in 2023 pertains to blending into the GB gas distribution networks only. Government remains committed to assessing the case for blending hydrogen into the gas transmission network. This work aims to gather evidence on the feasibility, costs and benefits of hydrogen blending. We recognise the need to provide clarity to industry on transmission-level blending, particularly given its interactions with distribution-level blending. In December 2024 we set out an intention to consult on transmission-level blending within GB in early 2025 – the Department is actively progressing the consultation with the aim to publish in the near future.

When deciding whether to enable hydrogen blending, the government will consider safety evidence from industry trials and tests, as well as any implications on the economic case. The Department is working with the Health and Safety Executive (HSE) to ensure this work is progressed as effectively as possible.

## **Project Union**

The Government welcomes the National Infrastructure and Service Transformation Authority's recommendation and agrees in principle with the value of a core network, akin to Project Union, connecting multiple hydrogen producers to users and to hydrogen storage at scale.

We believe there are significant benefits to the hydrogen economy that could be delivered through a core network, but that determining the most suitable routing and timeline for such a network requires further evidence.

We are assessing the growing evidence of emerging hydrogen transport & storage (T&S) network requirements to determine what infrastructure is needed, where and when, and we intend to produce further analysis on T&S requirements in due course.

In the early years of the hydrogen economy, it is likely that most industrial demand for hydrogen will be located within industrial clusters where sites can share infrastructure. We are therefore prioritising the development of regional network infrastructure while we continue to review the case for a core network to connect regional networks in the future.

### **Reducing costs of producing Green Hydrogen**

The Hydrogen Production Business Model (HPBM) incentivises investment in new low carbon hydrogen production and encourages users to switch to low carbon hydrogen by making it a price competitive decarbonisation option.

The HPBM provides revenue support to hydrogen producers to close the cost gap between low carbon hydrogen and high carbon fuels. The HPBM will stimulate demand for low carbon hydrogen as the subsidy paid to hydrogen producers will enable them to sell hydrogen at a price that users can afford to pay.

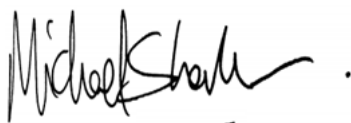
Driving down the cost of hydrogen production is key to unlocking widespread adoption, as well as for enabling UK companies to scale up, attract investment, and compete globally. To support cost reductions in Hydrogen Allocation Round 2 (HAR2), we have published a Cost Challenge Document alongside the HAR2 shortlist, which underlines the aim of achieving lower average hydrogen production costs than seen in the first Hydrogen Allocation Round. Projects must demonstrate value for money and justify costs across key components.

At Spring Statement 2025, the government committed to removing Climate Change Levy (CCL) costs from electricity used in electrolysis to produce hydrogen. This will lower costs and support the growth of low carbon hydrogen production. The consultation to determine the best legislative route to remove these CCL costs has now closed - responses are being analysed and HMT intends to respond in due course.

We are currently developing our approach to future Hydrogen Allocation Rounds, including HAR3, to ensure they deliver on the Government's priorities. We will seek feedback on the proposed design and delivery of HAR3 through a market engagement exercise later this year. Building on HAR2, there will be a continued emphasis on cost reduction, with a view to ensuring HAR projects continue to deliver value for money and reducing the levelised cost of hydrogen.

My Department will continue to work closely with you and the Committee and will provide further detail on the areas covered in this letter as and when there are developments as this work progresses.

Best wishes,

A handwritten signature in black ink, appearing to read 'Michael Shanks', followed by a period.

**Michael Shanks MP**  
Minister for Energy  
Department for Energy Security & Net Zero