

Subsidy Advice Unit Report on the proposed subsidy to ITM Power UK Ltd

Referred by the Department for Energy Security
and Net Zero

20 May 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 13 April 2026, the Department for Energy Security and Net Zero (DESNZ) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to the proposed subsidy (the Subsidy) to ITM Power UK Ltd under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates DESNZ's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.³ It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to DESNZ. It does not consider whether the Subsidy should be given or directly assess whether it complies with the subsidy control requirements.

Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, DESNZ has considered in detail the compliance of the Subsidy with the subsidy control and energy and environment principles. In particular, the Assessment:
- (a) clearly describes and evidences the specific policy objective of the Subsidy in the context of the UK government's wider climate change commitments and both the market failures and equity rationale that the Subsidy seeks to address (Principle A);
 - (b) demonstrates that DESNZ has considered other ways of achieving its policy objective and clearly explains and evidences why the Subsidy was the most appropriate option (Principle E);

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed subsidy to ITM Power UK LTD by the Department for Energy Security and Net Zero - GOV.UK.](#)

³ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

- (c) clearly explains and evidences how the Subsidy would change the beneficiary's economic behaviour and that the Subsidy brings about changes that would not have occurred absent the Subsidy (Principles C and D);
 - (d) demonstrates and evidences that the Subsidy is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance (Principle B); and
 - (e) considers and evidences the effect of the Subsidy on competition or investment, in line with Annex 3 of the Statutory Guidance (Principle F).
- 1.6 However, in relation to Principle G, we consider that the Assessment should further consider the geographical and distributional impacts in light of the suggested co-location and wider agglomeration effects in the context of the balancing exercise.
- 1.7 We discuss these areas below, along with other issues, for consideration by DESNZ in finalising its assessment.

The referred subsidy

- 1.8 Low-carbon hydrogen is expected to contribute to the UK's transition to Net Zero,⁴ including by supporting grid flexibility and the decarbonisation of sectors that are harder to abate, and by reducing reliance on fossil fuels. In this context, the Subsidy is intended to support the development of the UK supply chain for electrolytic hydrogen production alongside the deployment of domestic hydrogen projects. The Assessment suggests that this will reduce reliance on imported components and limit exposure to volatility in global energy markets.
- 1.9 DESNZ proposes to award a subsidy to ITM Power UK Ltd (the Beneficiary), a UK based electrolyser manufacturer headquartered in Sheffield. The Subsidy will support eligible capital expenditure for the construction and fit-out of a new manufacturing facility in Sheffield for the Beneficiary's next-generation electrolysers (the Project).
- 1.10 The proposed Subsidy is a £46.5 million capital grant, paid over financial years 2026/27 and 2027/28. It will be governed by a Grant Funding Agreement (GFA) between DESNZ and the Beneficiary and will be paid in arrears against milestones and evidence of spend. The Subsidy is conditioned on the Beneficiary

⁴ Net Zero refers to balancing the amount of greenhouse gas that's produced and the amount that's removed from the atmosphere. It can be achieved through a combination of emission reduction and emission removal.

demonstrating that it has raised equity from third-party investors to co-fund the Project without compromising its balance sheet strength or commercial viability.

- 1.11 DESNZ explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £25 million in value.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DESNZ.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.⁵

Policy objectives

2.3 The Assessment states that the policy objective of the Subsidy is to support the development of the UK's low carbon hydrogen sector by enabling the Beneficiary to expand domestic electrolyser manufacturing capacity, thereby:

- (a) supporting delivery of the UK's climate targets; while
- (b) strengthening energy security by reducing reliance on imported electrolysers; and
- (c) addressing regional deprivation through the creation of skilled employment in Sheffield.

2.4 The Assessment explains that this specific policy objective sits within broader policy ambitions designed to meet climate change commitments and the delivery of the UK's Carbon Budget and Net Zero targets.⁶

2.5 The Assessment states that, since the 2022 energy price shock, and in light of increasing global instability, the UK government has set out to enhance the UK's

⁵ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

⁶ The Climate Change Act 2008 commits the UK government by law to reducing greenhouse gas emissions by at least 100% of 1990 levels (Net Zero) by 2050 and sets interim targets through carbon budgets.

energy security, including through its Industrial Strategy and Clean Energy Industries Sector Plan.⁷ The Assessment notes that an overreliance on imported electrolysers risks impacting the UK's ability to produce hydrogen.

- 2.6 The Assessment states that establishing a strong domestic supply chain will provide jobs and investment for industrial regions of the UK, many of which face structural economic disadvantage.
- 2.7 In our view, the Assessment clearly describes and evidences the specific policy objective of the Subsidy in the context of the UK government's wider climate change commitments.

Market failure

- 2.8 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.⁸
- 2.9 The Assessment describes the following three market failures:
- (a) **Negative externality:** the Assessment states that supply chain risks can constitute a negative externality where firms' private sourcing and location decisions increase systemic vulnerability, imposing costs on consumers, other firms and the state during disruptions. Because these wider costs are not fully internalised, markets tend to underprovide resilience and diversification. It notes that global supply chains have come under increased pressure in recent years. The Assessment explains that the Subsidy is intended to address this market failure by enabling the Beneficiary to expand its manufacturing capacity, thus ensuring the UK has a domestic supply of electrolysers and strengthening the UK hydrogen supply chain.
 - (b) **Imperfect information and co-ordination failure:** the Assessment explains that, given the nascency of the hydrogen sector, individuals active in the sector act rationally by limiting their investment based on uncertainty around the future need and demand for hydrogen fuel and equipment. This results in a co-ordination failure where different parts of the value chain are unable to align their activities and creates a market where electrolyser manufacturers are either unwilling or unable to scale up production capacity ahead of demand. The Assessment states that, by removing early mover risk and providing a signal of UK government commitment, the Subsidy will allow the Beneficiary to

⁷ The Assessment notes that in the UK Clean Energy Industries Sector Plan, hydrogen is identified as a "frontier" energy sector: a strategically important clean energy industry that is high-growth but not yet fully mature, where government intervention is required to unlock scale [see [Clean Energy Industries Sector Plan - GOV.UK](#)].

⁸ [Statutory Guidance](#), paragraphs 3.36–3.51.

take an investment decision ahead of firm demand realisation and more broadly will alleviate some of the market uncertainty.

- (c) **Positive externality:** the Assessment explains that there is economic evidence to support the notion that expanding a major manufacturing activity in one geographic location can create wider agglomeration through labour, supply chains and productivity spillovers. However, as private companies cannot fully capture these benefits, market outcomes under-provide innovative activity and clustering, presenting a market failure. The Assessment states that the Subsidy will address this by enabling the Beneficiary to proceed with building a new facility in Sheffield, therefore ensuring the wider socioeconomic benefits are realised, first through the direct impact of increased manufacturing capacity, and longer term through agglomeration effects if the hydrogen supply chain clusters around the facility.

2.10 In our view, the Assessment clearly describes and evidences the market failures that the Subsidy seeks to remedy.

Equity Objective

2.11 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.⁹

2.12 The Assessment states that the Project addresses an equity concern by creating high skilled employment and supporting wage growth in an area characterised by socioeconomic disadvantage.

2.13 The Beneficiary's existing and proposed manufacturing facilities are located in Darnall, Sheffield which is an area ranked among the most deprived in England across multiple indicators.¹⁰ The Assessment explains that the Subsidy aims to reduce deprivation in the area by directly targeting three factors:

- (a) **Employment:** the Project is expected to create 243 direct jobs in the area, and co-location of other supply-chain companies could result in up to 214 further jobs.
- (b) **Education and skills:** the Beneficiary will create 'high-skilled' jobs and has stated it intends to train and upskill unemployed people in the area.
- (c) **Income:** data submitted by the Beneficiary in support of this project demonstrates that these jobs are anticipated to attract a wage premium which

⁹ [Statutory Guidance](#), paragraphs 3.52–3.56.

¹⁰ The Assessment states that on the Index of Multiple Deprivation, Darnall ranks as the 551st most deprived Lower-layer Super Output area (LSOA) in England and only 2% of LSOAs are more deprived.

the Assessment states should help reduce income related deprivation in the region.

- 2.14 In our view, the Assessment clearly describes and evidences the equity objective that the Subsidy seeks to address.

Appropriateness

- 2.15 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.¹¹
- 2.16 The Assessment explains that the Subsidy is the least distortive approach to achieving the policy objective. It acknowledges experience that DESNZ gained while delivering the Net Zero Hydrogen Fund, which demonstrates that capital grants are often the most effective form of support in emerging sectors. It states the Subsidy will enable the Beneficiary to proceed with the Project without acquiring repayment obligations which might risk future growth plans and its ability to raise capital. The Assessment sets out that this approach minimises market distortion while enabling strategic growth in the UK's clean energy sector.
- 2.17 The Assessment explains that DESNZ has considered the following means to achieve the policy objective:
- (a) Commercial loans from banks or Public Financial Institutions (PuFin), which were rejected based on perceived market and project risks.
 - (b) Equity investment from DESNZ or another UK government body, which were discounted because equity alone does not address the barriers of high upfront capital costs and early manufacturer risks. The Assessment also notes that an equity stake is unlikely to be a competitive offer. It concludes that a blended approach, combining a grant to de-risk capital expenditure with equity raised by the company, was more likely to secure the Project.
 - (c) Regulatory measures or information-based solutions, which were discounted because they would not overcome the financial barriers facing the Beneficiary, or the uncertain demand and investor hesitancy in the nascent market. The Assessment notes that these solutions would not deliver impact within the timeframe required to influence the Beneficiary's current investment decision and secure the Project.

¹¹ [Statutory Guidance](#), paragraphs 3.5r–3.59.

2.18 In our view, the Assessment demonstrates that DESNZ has considered other ways of achieving its policy objective and clearly explains and evidences why the Subsidy was the most appropriate option.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.19 Under Step 2, public authorities should consider compliance of a subsidy with:

- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
- (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹²

Counterfactual

2.20 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).¹³

2.21 The Assessment explains that DESNZ’s forensic accountants conducted a due diligence exercise of the Beneficiary’s accounts and the subsequent due diligence report has been used to inform the likely counterfactual scenarios.

2.22 The Assessment sets out a ‘no subsidy’ scenario, where the UK government does not provide a subsidy to the Beneficiary and it does not build the additional manufacturing capacity, but it does retain its existing operations in the UK. The Assessment explains that the Beneficiary would not be able to self-fund the Project without diverting resources away from other business-critical operations or contingencies.¹⁴

2.23 The Assessment explains that the Beneficiary would not be able to fund the Project using debt financing because developers, lenders and insurers take into account strong, liquid balance sheets that can absorb future repair / performance liabilities. By contrast, taking on debt raises fixed interest obligations and reduces

¹² See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

¹³ [Statutory Guidance](#), paragraphs 3.63–3.65.

¹⁴ The Assessment notes the importance of robust financial capacity in the electrolyser sector, including the need for sufficient resources to support warranty commitments and to maintain customer confidence.

headroom for unforeseen warranty calls. This makes debt-light, cash-strong manufacturers more attractive to counterparties.

- 2.24 The Assessment notes that the Beneficiary is currently pursuing an equity investment from Great British Energy (GBE). The Assessment explains that the Beneficiary plans to co-finance some of the Project but that some public sector participation was deemed necessary in covering the funding gap.
- 2.25 The Assessment explains that the Beneficiary is currently the only UK-based developer and manufacturer of electrolyzers at a commercial scale. In the absence of the Subsidy, it is unlikely that there would be a new entrant to the UK market to develop and construct electrolyzers in the immediate term due to high upfront costs and an inherent lack of certainty regarding the future use of hydrogen technology.
- 2.26 [§<]¹⁵
- 2.27 The Assessment notes that, in the absence of the Subsidy, the most immediate impact would be that socio-economic benefits of the Project would not be realised and the equity issues identified in Sheffield would not be addressed. This would manifest as lost opportunities for: jobs and skills, supply chain development and innovation. In addition, the Assessment notes that without this Project, market uncertainty and co-ordination failure in the nascent hydrogen market would be more likely to persist.
- 2.28 In our view, the Assessment clearly describes and evidences what would be likely to happen if the Subsidy was not awarded.

Changes in economic behaviour of the beneficiary and additionality

- 2.29 Subsidies must bring about something that would not have occurred without the subsidy.¹⁶ They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').¹⁷
- 2.30 The Assessment explains that the expected change in behaviour arising from the proposed subsidy is that the Beneficiary will take a final investment decision to proceed with the construction of a new 1GW electrolyser manufacturing facility in the UK and will commit capital to scaling domestic manufacturing capacity earlier

¹⁵ The SAU has excluded from this published version of the report information which it considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omission is indicated by [§<].

¹⁶ [Statutory Guidance](#), paragraph 3.67.

¹⁷ [Statutory Guidance](#), paragraphs 3.66–3.70.

and at a greater scale than would occur absent the Subsidy. This behavioural change directly achieves the policy objective by bringing forward additional UK based electrolyser manufacturing capacity, strengthening domestic supply chain and improving energy security.

- 2.31 The Assessment notes that the Subsidy has been designed to fund investment activities that would not be considered ‘business as usual’. The Subsidy is explicitly limited to a defined set of eligible capital expenditure costs associated with the construction and fitout of the new electrolyser manufacturing facility. These include building works, the procurement of specialist manufacturing equipment and directly attributable insulation costs. The Assessment also refers to detailed modelling of the Beneficiary’s expected eligible capital costs that DESNZ has assessed as part of its due diligence.
- 2.32 In our view, the Assessment clearly explains and evidences how the Subsidy would change the Beneficiary’s economic behaviour and that the Subsidy brings about changes that would not have occurred absent the subsidy.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

- 2.33 Under Step 3, public authorities should consider compliance of a subsidy with:
- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
 - (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.¹⁸

Proportionality

- 2.34 The Assessment sets out several features designed to ensure that the Subsidy is the minimum necessary and proportionate to the policy objectives:
- (a) The size of the Project to be funded by the Subsidy was reduced following due diligence.
 - (b) Technical experts assessed the activities and costs for the Project to ensure they represent the minimum level of costs needed to fit-out of the 1GW factory expansion, in line with the policy objective.

¹⁸ See [Statutory Guidance](#), paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

- (c) Technical experts assessed the financing options for the Project to ensure that the Subsidy meets a defined viability gap for financing of the Project. Following due diligence, it was decided to reduce the level of the Subsidy on the basis that the Beneficiary expects to be able to co-finance the Project.
- (d) DESNZ considers that the Subsidy intensity level (38.7%) is 'commensurate with the capital-intensive nature of development of manufacturing infrastructure at this early stage in a rapidly developing market'.

2.35 In our view, the Assessment clearly demonstrates and evidences that the Subsidy is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance.

2.36 However, in our view, the Assessment could more clearly explain how the due diligence process ensured that the Subsidy was limited to the minimum necessary, for example in relation to the manufacturing facility's capacity.

Design of subsidy to minimise negative effects on competition and investment

2.37 The Assessment identifies a number of characteristics of the Subsidy relevant to minimising the scale of potential negative effects on competition or investment within the UK including:

- (a) The nature of the instrument – it considered and discounted a range of other types of support, including other forms of capital grants, subsidised loans, convertible loans or grants, tax incentives and market guarantees.
- (b) The breadth of beneficiaries and the selection process – DESNZ identified a number of potential recipients through its market analysis of the hydrogen supply chain based on a call for information and associated bilateral meetings. This market intelligence was used to inform an evaluation of the potential recipients to determine the most suitable candidate. The Assessment refers to a supporting annex which sets out the shortlisting process, including the three selection criteria (product type, whether they have existing UK electrolyser capacity and commercial readiness) and evaluation metrics used under each criterion.
- (c) The Subsidy provides time-limited financial support for upfront capital costs with ring-fenced payments paid in arrears (by financial year 2027/28) that consider the Beneficiary's progress towards the deliverables set out in the GFA.
- (d) The GFA includes a mechanism to clawback the costs of ineligible activities.

- (e) The Subsidy design requires the Beneficiary to co-fund alongside the Subsidy, (see paragraph 2.34(c)) which reduces the risk of crowding out private investment.

2.38 In our view, the Assessment demonstrates and evidences how some design features of the Subsidy contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom.

Assessment of effects on competition or investment

2.39 The Assessment states that the relevant product market is the global electrolyser market, referring to European Commission precedent.

2.40 It concludes that the Subsidy is unlikely to have significant distortive impact on the UK, referring to a number of factors in support of its conclusion, including the following:

- (a) Hydrogen production projects in the UK are able to source electrolysers from a number of manufacturers in the UK and overseas. Although reliance on imported electrolysers may increase lead times for UK hydrogen production projects, the Assessment states there are limited barriers to supply internationally, referring to examples including a Scottish hydrogen project in Aberdeen that recently imported a 2.5 MW electrolyser.
- (b) Subsidies are less likely to be distortive in markets with lower market concentration, referring to (i) the Beneficiary's low share of global electrolyser supply (by value and manufacturing capacity); and (ii) the number of established international competitors with production capacities comparable to the Beneficiary.
- (c) Subsidies are less likely to be distortive in markets that are growing. The Assessment notes that the global electrolyser market is expected to grow rapidly to 2030 and beyond referring to third party estimates of market growth. It acknowledges that estimates of projected market growth vary considerably due to the nascency of the market.

2.41 The Assessment acknowledges that the Subsidy could (i) strengthen the Beneficiary's bargaining position with UK project developers in near-term procurement rounds; (ii) increase barriers to entry where the Beneficiary benefits from economies of scale through increased capacity; and (iii) make it harder for smaller UK competitors and earlier-stage innovators to raise private capital if investors infer there is reduced "space" for challengers. However, it considers distortions are unlikely as the beneficiary selection process was based on objective criteria, supply chain decisions are a completely open choice for

Hydrogen Allocation Round 2 projects,¹⁹ and any policy changes would align with relevant domestic and international law.

- 2.42 The Assessment considers it unlikely that the Subsidy would negatively impact incentives to innovate because it will be used to build a facility for scale production of its next-generation, more efficient, Chronos electrolyser. To support this, the Beneficiary will need to continue research and development to test the Chronos electrolyser prototype ahead of commercial deployment.
- 2.43 The Assessment also considers impacts on the local labour market in Sheffield.
- 2.44 In our view, the Assessment considers and evidences some effects of the Subsidy on competition or investment within the UK in line with Annex 3 of the Statutory Guidance.

Step 4: Carrying out the balancing exercise

- 2.45 Under step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.²⁰
- 2.46 The Assessment sets out the anticipated benefits of the Subsidy, which will stimulate the growth of the UK electrolytic hydrogen supply chain and enable the deployment of hydrogen products in line with the policy objectives. The Subsidy is expected to:
- (a) Bring a direct positive economic impact to the local area through the creation of 243 high-quality green jobs related to the Project.
 - (b) Bring indirect benefits to the region through the creation of 214 jobs in the wider hydrogen supply chain, as other hydrogen companies co-locate alongside the Project.
 - (c) Through the direct wage benefits of the Project and the indirect socio-economic impacts, help to address the equity issues identified in paragraph 2.13 above.
 - (d) Bring accruing benefits to the entire nation through strengthening the UK electrolyser supply chain, doubling the UK's electrolyser production capacity, creating improved security of supply and lower costs for hydrogen projects,

¹⁹ Green hydrogen support is delivered through the Hydrogen Allocation Round (HAR). HAR1 launched in July 2022 and projects for HAR2 were shortlisted in April 2025.

²⁰ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

strengthening supply chain resilience and, in the medium term, the UK's energy security.

- (e) Send a strong market signal by demonstrating commitment and reducing early-stage risk in a capital intensive and uncertain market. This in turn will crowd in, rather than crowd out, investment.

2.47 The Assessment also considers the potential negative impacts of the Subsidy:

- (a) The Subsidy may fail to reward more innovative or efficient competitors. The Assessment considers this risk to be low given that the Beneficiary already produces highly efficient and cost-competitive electrolysers, and remains the only electrolyser manufacturer with proven commercially viable operations in the UK.
- (b) The Subsidy may distort the competitive entry process by raising barriers to entry for new UK entrants. The Assessment considers this risk to be low given that new entrants would also face competition from international manufacturers, many of which have already received subsidies.
- (c) The Subsidy will likely strengthen the Beneficiary's market position. However, the Assessment considers that continued competition from international manufacturers and low market concentration mean that the Beneficiary's ability to gain market share will be limited. It notes that the Beneficiary's low existing market share within global supply means that the risk of predatory pricing is also low.
- (d) The Subsidy may affect related international markets, including the global electrolyser market and downstream hydrogen supply markets, and create marginal disadvantage to overseas electrolyser manufacturers competing for the same contracts. The Assessment considers this risk to be low given the size of the Subsidy relative to the global market, the presence of extensive subsidy support in other jurisdictions, and the fact that procurement decisions are driven by price, performance and reliability, rather than location alone.
- (e) The Subsidy may affect input markets, including skilled labour, raw materials and land. The expansion of electrolyser manufacturing in Sheffield is expected to increase local demand for specialised engineering and manufacturing skills. While this could place upward pressure on local wages, the Assessment considers these impacts to be limited, given the Project's scale relative to the wider UK manufacturing workforce.

2.48 The Assessment concludes that the beneficial effects of achieving the policy objectives of the Subsidy outweigh the potential negatives.

2.49 In our view, the Assessment sets out the positive effects of the Subsidy in relation to the policy objectives, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance. However, the Assessment should consider further any geographical and distributional impacts of the Subsidy, in light of the suggested co-location and wider agglomeration effects (see paragraph 2.9(c)).

Energy and Environment Principles

2.50 This section sets out our evaluation of the Assessment against the energy and environment principles.²¹

2.51 DESNZ has conducted an assessment of the Subsidy against Principles A and B. DESNZ does not consider that any other energy and environment principles are relevant, and we have not identified any other principles that should have been addressed as part of the Assessment.

Principle A: Aim of subsidies in relation to energy and environment

2.52 Subsidies in relation to energy or the environment should be aimed at (i) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market; or (ii) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.²²

2.53 In relation to the first limb, the Assessment explains that support for the Beneficiary would take place within the context of the UK's policy on low carbon hydrogen, due to the fact that electrolyzers are the key component used in the production of low carbon hydrogen. The Assessment then explains that low carbon hydrogen forms a key part of the UK's future low carbon energy system. This contributes to energy security and affordability by decreasing reliance on imports of energy. More specifically, it leads to long term affordability by supporting an energy system that does not produce the same negative externalities and societal costs as carbon-intensive sources of energy.

2.54 In relation to the second limb, the Assessment states that DESNZ's support for the Project would help to bring about greater qualities of electrolyzers that would then feed into greater quantities of low carbon hydrogen production in the UK. The Assessment explains this increase in low carbon hydrogen has the potential to directly or indirectly lead to the displacement of higher carbon alternative fuels,

²¹ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

²² [Statutory Guidance](#), paragraphs 4.19–4.28.

and DESNZ expects this will therefore lead to significant reductions in CO₂ emissions and the environmental harm that flows from these emissions.

2.55 In our view, the Assessment clearly explains and evidences how the Subsidy complies with Principle A of the Energy and Environment Principles.

Principle B: Beneficiary’s liabilities as a polluter

2.56 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.²³

2.57 The Assessment makes clear that the Subsidy would be compatible with this principle because it would not be relieving the Beneficiary of any of its liabilities arising from its responsibility as a polluter. The Assessment states that DESNZ is not aware of any particular pollution that the electrolyser manufacturing process would generate.

2.58 In our view, the Assessment clearly explains how the Subsidy will comply with Principle B of the Energy and Environment Principles.

Other Requirements of the Act

2.59 DESNZ confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

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²³ [Statutory Guidance](#), paragraphs 4.29–4.34.