Director
Production Tax Incentives Unit
Corporate and International Tax Division
Treasury

By email to: HydrogenProductionTaxIncentives@treasury.gov.au

12 July 2024

To whom it may concern,

Hydrogen Production Tax Incentive - Consultation paper

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Treasury ("the Treasury") in response to the Hydrogen Production Tax Incentive Consultation paper ("the Paper").

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Hydrogen is an important component of a future carbon free world

While headwinds are currently being experienced in the development of hydrogen, ENGIE is committed to exploring solutions based on renewable hydrogen, produced by electrolysis using a green energy supply. ENGIE's aim is to operate across the entire value chain of renewable hydrogen, from carbon-free power generation to the three key end uses: mobility, industry and energy storage.

ENGIE's hydrogen interests have a global footprint, including projects in (amongst others) France, Singapore and Australia. Notably, ENGIE is project lead on one of the three ARENA-supported commercial-scale renewable hydrogen projects: a 10 MW electrolyser project to produce renewable hydrogen in a consortium with Yara Pilbara Fertilisers at their Karratha plant.

In this light, we welcome the Treasury's proposal for a Hydrogen Production Tax Incentive (HPTI), which can play a valuable role in supporting the development of the clean hydrogen sector in Australia, providing it is appropriately designed.

Clean Hydrogen is still a nascent industry, and the suite of policy measures should recognise this

While all policy support for clean hydrogen is welcome, different instruments suit different circumstances. Clean hydrogen has yet to be deployed at any scale in Australia and several of the prospective use cases are yet to be tested. While some gas turbines are marketed as “hydrogen ready”, actual operation on pure hydrogen is only at the pilot plant stage globally. Critical infrastructure such as storage and pipelines are still being developed or tested in the case of existing infrastructure for their suitability for hydrogen as opposed to natural gas. In other words, the industry is still largely in the research and development stage and has yet to cross the notorious “valley of death” into commercial deployment that stymies many infant industries.

In this light, a production tax credit may not be the best targeted form of policy instrument as tax credits are most useful when an industry is at the near-commercial stage of development. Even where there are straightforward use cases such as in ammonia, a $2/kg credit may not be sufficient to bridge the cost-competitiveness gap to existing hydrogen production methods.

This is especially the case given that early stage projects will typically be loss-making and thus have no tax liability against which to set the credit. A tax credit that simply increases losses that may be used up at some future date is worth considerably less than its face value. ENGIE notes that the Paper explains that “Depending on the circumstances of the claiming company this means the offset may result in a cash refund…”. If the cash value of the credit can be realised by a loss-making project, that is clearly more valuable. Accordingly, it would be useful if the Treasury could provide further details of the circumstances under which the offset is fully refundable.

ENGIE also notes that the Australian government and some jurisdictional governments have other support policies in place, including some grant funding processes, which are well-oriented to an early stage industry, and that the HPTI can serve as a complement to these other policies. In this light, the Treasury should consider how the range of policies interact and at this early stage can be sanguine about projects utilising multiple income streams to achieve viability. However, if there are limited further rounds of early stage funding instruments, then this may result in reduced take-up of the HPTI too, as it may not be enough on its own to get projects to financial close.

As an instrument to reduce the cost of clean hydrogen production, the proposed high level design of the HPTI appears largely appropriate. It is a simple proposition, with a fixed rate incentive for every tonne of qualifying hydrogen produced. Integration with the tax system makes claiming the credit relatively straightforward. It is available for all end uses of hydrogen, and appropriately focussed on low emissions hydrogen. The emissions intensity can be verified using the Guarantee of Origin (GO) scheme that the Commonwealth has been developing, which avoids having to create a new verification process. Avoiding the requirement to time match renewable energy with the electrolyser output is consistent with the design of the GO scheme which also does not require proof of additionality. Attempts to require time matching for the equivalent incentive in the US is stymieing development of clean hydrogen there.

It's not clear why the threshold of 10MW electrolyser (or equivalent) has been chosen as the minimum size, although ENGIE expects that our projects in Australia will meet this threshold. One possibility is that Treasury considers that the administrative burden of establishing eligibility and claiming credits would be disproportionate for smaller projects. The incentive has been designed to have a relatively low administrative burden for claiming production credits, so it’s likely to be the initial process of establishing a project’s eligibility. This only holds if there are numerous, onerous requirements to meet, but if the eligibility criteria can be streamlined then there is no reason why the incentive couldn't be open to smaller projects, which would better facilitate the achievement of the policy's goals.

Community benefits are an inherent outcome of the incentive

As the incentive is only available to operational hydrogen facilities, the recipients will already be delivering broader community benefits and have gone through processes to ensure their project does not impose community disbenefits.

Firstly, in order to become operational, a project must by definition have met all the relevant planning approvals and environmental assessments, which provide a safeguard against any disbenefits occurring due to the project. The operator must also have carried out sufficient community engagement and committed to any appropriate direct community contributions to obtain social licence for the project, including for any dedicated renewable energy infrastructure.

Secondly, as it will be located in Australia, the project will inherently be contributing to the local and national economy, providing jobs and sectoral experience, procuring local services to construct and support the operation of the physical infrastructure. This is true even where some of the materials or labour inputs may come from overseas, as is normal for any new industry.

Conversely, if a set of additional onerous requirements are imposed on projects intending to utilise the HPTI, the intent of the policy will be undermined. Projects may not go ahead if they cannot meet the requirements or the cost of doing so leaves the project commercially unviable even after the HPTI.

Disclosure rules should be in line with other tax credits

The Paper does not provide a specific proposal on disclosures relating to a beneficiary's tax status or the amount of the benefit they receive, whether this is reported to the government or publicly, whether public information will be at an aggregate or company level. ENGIE notes that it is improbable that a company could sustainably benefit from the HPTI unless it was in good standing with the ATO. Accordingly, the purpose of disclosures relating to tax filing is unclear. ENGIE notes that the value of the fuel tax credit (FTC) for example, is far larger than the HPTI is likely to be and yet there are no specific disclosure requirements associated with eligibility for this tax benefit. The ATO publishes aggregate FTC claims by industry sector, but not by company.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

Jamie Lowe
Head of Regulation,
Compliance, and Sustainability