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12 July 2024

Adrian Gebers
Director – Production Tax Incentives Unit
Corporate and International Tax Division
The Treasury

HydrogenProductionTaxIncentive@treasury.gov.au
via email

Dear Adrian,

Re: Hydrogen Production Tax Incentive consultation

Thank you for the opportunity to respond to the Hydrogen Production Tax Incentive (HPTI) consultation paper. ATCO welcomed the announcement of the HPTI under the Future Made in Australia package in the 2024-25 Federal Budget.

ATCO consider the HPTI can play an important role in de-risking the investment in and delivery of hydrogen production facilities that might otherwise be challenged to reach investment decisions ahead of material hydrogen demand increases forecast for later in the decade. Delivered successfully, the incentive would help stimulate investment in renewable hydrogen production, bring hydrogen supply to market, and kick-start domestic industry amidst an increasingly competitive global backdrop. A time-limited tax incentive, *alongside* other forms of support would contribute to making renewable hydrogen competitive.

While the HPTI targets the supply side of hydrogen, demand-side policy initiatives are also needed to support investment in production, such as the extension and expansion of the Hydrogen Headstart Program, or even the introduction of a renewable gas target. The domestic market is constrained by the lack of committed demand for hydrogen to provide investment signals for production facilities. Scaling hydrogen production can only be achieved by building demand to enhance the cost competitiveness of hydrogen and advance technology uptake. Both supply and demand policy measures are needed to unlock investment, given the nascency of the sector.

ATCO has been investing in renewable hydrogen since 2017. The Clean Energy Innovation Hub in Western Australia has been producing renewable hydrogen since 2019 and demonstrating its use by blending it into a subsection of the WA gas distribution network, generating electricity through an onsite fuel cell, and refuelling vehicles as part of our fleet. ATCO is also conducting a feasibility study for the development of a 1GW electrolyser and 800kpta ammonia export facility in the Illawarra region of New South Wales, supported by funding from ARENA through the HyGATE initiative.

The key points this submission conveys are:

1. **Adjusting the incentive for inflation would ensure its effectiveness throughout the support term is maintained.**
2. **The minimum capacity and single site requirements risk excluding certain projects from accessing the incentive.**

Adjusting the incentive for inflation would ensure its effectiveness throughout the support term is maintained.

ATCO supports the delivery of the incentive as a refundable tax offset. The refundability element would ensure that hydrogen producers can limit their tax liability, receive an immediate cash flow impact, and maximise the competitiveness of hydrogen globally while contributing to the growth of the renewable hydrogen industry in Australia.

The incentive must be indexed to inflation to maintain its effectiveness throughout the support term. To maintain Australia's global competitiveness in hydrogen, it is important that the HPTI is aligned to similar production incentives available in competing countries. The US Inflation Reduction Act provides a $3 tax credit per kg of hydrogen produced which is adjusted annually for inflation. With the economics of hydrogen production highly sensitive to ongoing costs, inflation indexation will provide investors with certainty on the price that can be delivered without the added risk of factoring in inflationary impacts.

The minimum capacity and single site requirements risk excluding certain projects from accessing the incentive.

The rationale and methodology underpinning the minimum capacity requirement has not been provided in the consultation paper. Greater clarity is needed to justify the 10MW minimum requirement, as the policy rationale for the HPTI seeks to incentive hydrogen production broadly and therefore the scale of production should be left for commercial determination. Unlike the Hydrogen Headstart program which seeks to incentivise large scale production, specifying a minimum capacity requirement will exclude certain hydrogen use case projects from the incentive. This may include projects in remote areas or in the transport and mobility sector.

Similarly, the requirement for facilities to be located on a single site carries the same risk of excluding blending or transport refuelling projects as they are likely to have distributed production sites located close to refuelling stations or network injection points to reduce transport costs that might otherwise be incurred by servicing a refuelling or blending offtake from a singular facility.

The consideration of aggregated facilities for the same or equivalent use case may enable the eligibility of a broader range of hydrogen use cases to access the incentive. Allowing projects to aggregate capacity across multiple sites would enable blending or transport refuelling projects to benefit from the incentive.

We thank the Treasury again for the opportunity to make a submission. If you have any questions or would like to discuss any of the comments made in this submission, please contact myself or Hugh Smith, General Manager – Regulatory Strategy & Policy at hugh.smith@atco.com or 0459 894 397.

Yours sincerely,

John Ivulich

Chief Executive Officer and Country Chair – ATCO Australia

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ATCO RESPONSE TO SELECTED CONSULTATION QUESTIONS

2. Please provide any feedback on the proposed eligibility criteria.

ATCO broadly supports the proposed eligibility criteria as it is not restrictive and applicable to most projects. Further consideration is suggested for two criteria – the minimum capacity and single site requirements. These requirements will prevent certain hydrogen use case projects from accessing the incentive. This may include projects in remote areas or in the transport and mobility sector.

Similarly, the requirement for facilities to be located on a single site carries the same risk of excluding blending or transport refuelling projects as they are likely to have distributed production sites located close to refuelling stations or injection points to reduce transport costs that might otherwise be incurred by servicing a refuelling or blending offtake from a singular facility.

Please refer to our response to question 9 and our submission, particularly the second key point, for more detail.

5. How long do you expect it will take for projects to reach first production following FID?

The time following FID for a project to reach first production will depend on the size and scale of production. This could range from 2 to 3 years as a minimum for an export scale GW facility, which is largely influenced by the ordering of long lead items such as the electrolyser. For a smaller facility below 10MW, it is expected that it would take 12 to 18 months from FID to first production.

9. Please provide feedback on the proposed minimum capacity requirement (equivalent to 10 MW electrolyser)?

Greater clarity is needed to justify the 10MW minimum requirement, as the policy rationale for the HPTI seeks to incentive hydrogen production broadly and therefore the scale of production should be left for commercial determination. Unlike the Hydrogen Headstart program which seeks to incentivise large scale production, specifying a minimum capacity requirement will exclude certain hydrogen use case projects from the incentive. This may include projects in remote areas or in the transport and mobility sector.

12. Please provide feedback on the proposal to not include additional requirements on renewable energy generation for access to the incentive, such as additionality and hourly time-matching with hydrogen production.

Minimising a requirement for procuring time-matched electricity input with hydrogen production affords hydrogen producers the necessary flexibility to scale production facilities and secure customers while the industry is in its infancy, and while regulatory and governance frameworks (Guarantee of Origin and REGO schemes) mature.

13. Please provide any feedback on the proposed administrative approach.

ATCO supports leveraging the GO scheme as that would reduce administrative burden for H2 producers.

22. Who should the reporting requirements be imposed on? For example, on the recipient entity, or central reporting through a regulator?

Central reporting requirements through the CER would be preferred as it would be in line with the GO scheme.

23. Please provide feedback on the proposed treatment of the interactions between the HPTI and other forms of Commonwealth, State or foreign government support.

It is encouraging to see that the HPTI could be used with other forms of support which will help to target a range of hydrogen uses. Given the infancy of the sector, more support is required and allowing producers to stack incentives to make renewable hydrogen cost-effective would propel industry development in Australia.