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12th July 2024

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To whom it may concern,

Hydrogen Production Tax Incentive Consultation Paper

Energy Estate HyNQ Pty Limited (EE HyNQ) as Operator of the North Queensland Clean Energy Project (HyNQ) welcomes the opportunity to provide feedback on the Hydrogen Production Tax Incentive Consultation Paper.

About us

Energy Estate is an independent Australian developer of large-scale energy transition projects and accelerator of other energy transition opportunities across Australia, New Zealand and internationally. Energy Estate is the Operator of the HyNQ Project (**Project**), a ~\$7 billion integrated renewable energy and hydrogen production project being developed together with our joint venture partners Idemitsu Renewable Developments Australia and IHI Engineering Australia and in collaboration with CS Energy. Located at the Port of Abbot Point the HyNQ project is looking to produce circa 285 tpd of green hydrogen to support an export target of 500ktpa of green ammonia, with a target to commence operation prior to 2030.

The HyNQ Project and its joint venture partners welcome the introduction of an Australian Federal Hydrogen Production Tax incentive as part of the Future Made in Australia plan. Feedback to the discussion questions is provided below.

1. The introduction of this incentive is likely to have a positive impact on the development of the HyNQ project. With multiple international investors in this project, support from the Australian Federal Government through schemes such as the HPTI is viewed positively and may drive reciprocal support from product destination countries. For example, our Japanese partners in Idemitsu and IHI Engineering are closely monitoring the upcoming supply chain contract for difference subsidy scheme administered by the Japanese Ministry of Economy, Trade and Industry (METI).

The HyNQ Project will be a foundation project for a new green chemical industrial precinct in North Queensland. This green chemical precinct will require new water infrastructure, which also unlocks additional agricultural land in the region. Incentives that support the Project help to unlock significant new renewable energy resources, aligning with the QEJP. Enabling scale hydrogen projects like HyNQ also supports jobs in the regions focused on new export products, and the critical minerals that are required for construction of renewables and power firming technologies.

2. *Please provide any feedback on the proposed eligibility criteria.*
We are supportive of the proposed eligibility criteria. Particularly the requirement for projects to reach FID by June 30, 2030. We see this timing criteria as supportive in accelerating hydrogen production in Australia. We are also supportive of the eligibility of hydrogen (and derivatives) produced for export. We see that Australia has a continuing role to play as a global energy exporter, and green hydrogen (and derivatives) allows Australia to continue energy exports in a decarbonised world.

The eligibility criteria should be mindful of the variety of tax structures in global energy projects e.g. uJVs, trust structures and ensure that international participants/investors don't lose the benefit of the HPTI through impact of tax structures. Similarly, the eligibility criteria and structure of the incentive needs to ensure that projects with state government owned entities as participants can avail themselves of this incentive.

3. *What key factors would need to be accounted for in a definition of an eligible facility for the purposes of the HPTI?* As discussed in answer #2 the eligibility criteria and structure of the incentive should enable participation of projects with state government owned entities as participants.

Essential processes leading up to hydrogen production (plant construction, construction of infrastructure such as the expansion of port facilities at Abbot Point, etc.) should also be eligible for tax incentives. (In other words, our request is that the tax incentive to be applied from the year of FID, not the date of commercial operation). For the HyNQ project, FID is anticipated in 2026, followed by the construction of an ammonia plant over the next two to three years, before hydrogen production commences. In setting a definition for "eligible facility" consideration should be given to extended tax incentives to cover the essential infrastructure development necessary for early-stage projects. For example grid connection, and the expansion of port facilities at Abbot Point.

4. *What key factors would need to be accounted for in a definition of Final Investment Decision (FID) for the purposes of the HPTI?* FID should be defined as the point at which the project secures financing, completes primary regulatory approvals, and commits to construction. Consideration for phased investment decisions should be given for large projects like HYNQ with extended timelines. The definition should provide clarity on whether final negotiation of debt, equity and level of construction detail needed for the project to be eligible for HPTI.

5. *How long do you expect it will take for projects to reach first production following FID?* For integrated (renewable energy generation and hydrogen/ammonia production) projects such as HyNQ a construction and commissioning period of 36-40 months is a reasonable expectation. If the project is dependent on new or augmented transmission infrastructure and/or the delays associated with approvals to connect to the NEM, then it is likely to take materially longer to reach first production following FID. Timing to production from FID may also be conditional on other project construction timelines e.g. grid augmentation, common user water and export infrastructure.

6. *For foreign investors, do you currently encounter any impediments to investment in projects that would be eligible?*
Idemitsu - Our key impediment to date has been centered on the commercial viability of projects. Moving forward, we are seeking support from the government through schemes like the HPTI prior to mobilising significant capital towards projects that have a higher risk profile and low return (given the nascent nature of the industry). We are also seeking support for our projects through Japanese subsidy schemes, however, at this time Australia is not competitive against projects in the USA and Middle East.

IHI - Current foreign investment regulations can be restrictive. Simplifying the approval process and providing clear guidelines on foreign investment in renewable energy projects will encourage greater participation and investment.

7. *Please provide any feedback on the proposed emissions intensity threshold of 0.6kg of carbon dioxide equivalent up to the production gate.* With respect to the HyNQ project 0.6kg of carbon dioxide equivalent up to the production gate is a higher emissions intensity limit than the planned production gate intensity from our project. As such we would not anticipate any hardship reaching this target.
8. *Other than electrolysis, what production processes would meet this emissions intensity threshold now or before 2030?* No answer for this question as our project is based on electrolysis.

9. *Please provide feedback on the proposed minimum capacity requirement (equivalent to 10 MW electrolyser)?* We believe that this low level of minimum capacity does not encourage the scale of investment required to deliver a globally or even locally competitive price, or drive the production volumes needed to support decarbonisation of Australian industry and meet global decarbonisation targets. Australia needs to move beyond funding scale-up or pilot projects (as ARENA and the States have done to date) and focus resources on hubs which can produce a competitive product at scale. We would be supportive of a minimum capacity requirement like that of Hydrogen Headstart (50MW) or higher (100MW) given this incentive should drive the development of large-scale hydrogen production in Australia. Other schemes, such as Hydrogen Hubs, have already focused on smaller projects

10. *For renewable production processes other than electrolysis, is using the minimum capacity requirement of "equivalent to a 10MW electrolyser" appropriate? Is another definition of capacity required to deal with other production pathways?* No answer for this question as our project is based on electrolysis.

11. *Should grid connected electrolyser projects be required to match their hydrogen production with electricity generated by the same electricity grid? Please provide feedback on this proposal.* We believe that electricity used for hydrogen production should be generated by the same electricity grid, preferably within the same state/node. If hydrogen production is not matched with electricity generated by the same electricity grid this can lead to unrepresentative 'offsetting' of fossil-fuels with certificates created on another grid. Other potential side effect could include grid congestion (curtailing the clean generation resource) and increase of local fossil-based generation to meet the electrolyser demand.

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.* We feel that additionality is a positive requirement for any robust hydrogen production incentive scheme, however this should not affect the use of recently developed renewable energy for green hydrogen production. If an additionality requirement is included, treatment of firmed green power such as pumped hydro must be carefully considered along with percentage of penetration of renewable energy. To ignore additionality may put Australian projects at a disadvantage to the global trend and is out of step with the approach taken by our trading partners. From a consumer perspective it takes the issue that local generation may be preferentially used for export of hydrogen-derived products without sufficient generation being built to replace retiring fossil fuel generation and to meet load growth from electrification and new industry.

We are supportive of time matching being introduced in the medium to long term in line with global trends.

13. *Please provide any feedback on the proposed administrative approach.* We are supportive of a streamlined approach to the administration required to manage this scheme. Registration under the GO scheme and creation of GO certificates are already anticipated for the project, on the basis that it includes large scale behind the meter renewable energy generation.

14. *The proposed GO scheme will be used to support the registration and verification of hydrogen production. Are there any additional factors that would need to be accounted for in the proposed design of that scheme?* Projects reliant on project-developed behind-the-meter renewable energy generation must be included in the GO scheme.

15. *The Government may legislate the administrative arrangements in subordinate legislation. Please provide any feedback on this proposed approach.* No answer to this question

16. *What obligations should be imposed on potential recipients of the HPTI to ensure the community benefit principles are met?* We believe that any such principles must be definitively included in binding contracts to ensure compliance. There are useful precedents from the ACT contract for difference we consider to be a best-in-class approach across the States. Minimum obligations should include transparency in reporting, local community investment.

17. *What obligations are potential recipients of the HPTI currently subject to that might support the community benefit objectives (noting these will be finalised under the Future Made in Australia Act)?* Members of the HyNQ uJV are signatories to the Energy Charter and are participating in the development of the Queensland Renewable Energy Developer code. We are also working closely with ISC, WWF, and the FNCCI to ensure the Project is developed in a sustainable manner with long lasting positive outcomes for the local community and environment.

As a Project we believe First Nations people must play a key role in, and harness the opportunities from, Australia's renewable energy boom. The transition to renewable energy must occur with equitable outcomes for First Nations people and communities. Together with the Traditional Owners of Project locations we want to ensure the project provides the very best environmental, social and economic benefits, including local employment, skills development and recognition of their cultural values.

We believe that local content, local employment and capacity building, employment of apprentices/training workers, partnerships with training institutions and a focus on First Nations economic participation are critical factors for a successful scheme

18. *Are there any additional objectives that you consider important? What obligations might support these?* Lessons can be drawn from existing schemes such as the IRA as well as existing Federal Government procurement rules and practices.
19. *Recipients of the HPTI may be subject to additional transparency and disclosure requirements in order to be eligible. What kind of requirements are appropriate? What are the key practical considerations to take into account when setting the requirements?* We happy to accept full transparency and disclosure requirements where these fall outside any commercial in confidence obligation that are carried by the project. This should be structured in a way that is efficient and aligns with standard commercial reporting processes, rather than imposing undue additional workload and costs on projects.
20. *How should entities proposing to claim the HPTI be required to demonstrate compliance with tax obligations?* Appropriate accounting and tax reporting, consistent with current obligations.
21. *What information do you consider important for the community that should be reported publicly on the recipients of the HPTI such as the amount of credit received?* Subject to matters that are commercial in confidence we are supportive of reporting on the amount of credit received.
22. *Who should the reporting requirements be imposed on? For example, on the recipient entity, or central reporting through a regulator?* No answer to this question
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 important that other forms of support are available, particularly for projects that are broad in scope. The HyNQ project includes renewable energy generation, transmission, hydrogen and ammonia storage, water infrastructure and export infrastructure that may be developed as common user infrastructure, above and beyond the production of hydrogen. Treatment of interaction between the HPTI and other forms of support (including the interaction with the Japanese METI subsidy schemes) should be aimed at delivering maximum benefit at lowest cost to project and avoid double counting.
24. *How can the HPTI best leverage other types of support? Please provide examples relevant to your project if possible.* The impact of HPTI support on project deliverability will allow projects to access additional forms of support. These may include local support from regional councils and/or support for common user infrastructure related to a group of projects. With the HPTI showing that the Australian Federal government is supporting the development of a large-scale hydrogen industry in Australia, this will unlock international support in destination countries that together allow the project to proceed. We acknowledge there is mutual benefit to host and destination countries if there is sharing of support for project. The HPTI underpinning the viability of large-scale hydrogen projects will also have a flow-on effect into local community benefit schemes which should be a part of any new energy project.

For HyNQ, having the HPTI underpin the viability of this, and other projects based at Abbot Point creates increasing project certainty for the foundation of common user and community infrastructure through State schemes like the Abbot Point Activation Initiative (APAI). The APAI is proposing large scale regional improvements such as;

- water infrastructure to bring existing unused bulk freshwater from the Burdekin to Abbot Point. The clean energy projects provide the foundation demand for water infrastructure that also benefits agricultural and urban water users in the region
- the transition of the North Queensland Bulk Ports export terminal at Abbot Point from a coal export terminal to a clean energy export terminal with an ammonia export target of 25M tpa.
- Road upgrades include safe entry and exit from the Bruce Hwy to the Abbot Point State Development area.

With support from both the HPTI and APAI the creation of a large-scale clean energy hub, incorporating multiple projects

25. *What are the key practical considerations with receiving support through the HPTI and the Hydrogen Headstart program simultaneously? We believe that government incentives should support as many projects as possible to drive a large and thriving hydrogen industry in Australia. Where there is any limitation of funding allocation for the HPTI there should not be an undue benefit to projects already allocated Headstart funding. Support should be shared to impact greatest number of projects and drive the Australian hydrogen industry forward at scale.*

26. *Are there specific interactions with other support programs that should be considered? Where projects, such as HyNQ, have a broader scope, enabling new water and export infrastructure along with additional energy production, these additional elements beyond hydrogen production should be supported by programs such as Rewiring the Nations, other elements of Future Made in Australia, Regional Infrastructure grant funding. The nature of the HPTI should not impact on the ability of project to access these additional support programs.*

Additional Comments

We would like to include several additional comments from the HyNQ Project, and its joint venture partners on the design of incentives to support a large-scale, long-term hydrogen production project like HyNQ.

While we acknowledge the current proposal for a tax refund-based incentive, our preference for methods to receive tax benefits are;

1. Cash refund
2. An advance refundable tax credit system based on projected eligible expenditures.
3. Carry-forward of tax credits to future years when the project starts generating taxable income.

In addition to the above, since we expect the timing of investment decisions to occur at multiple phases (securing funding of the project, regulatory approvals, commitment to EPC construction, etc.) of the project, we request for the incentive to provide milestone-based interim tax incentives to support large-scale projects with long development timelines.

Conclusion

The HyNQ Project welcomes the introduction of a broad incentive to support a wide number of projects in the emerging hydrogen industry in Australia, to allow these projects to be competitive against other global jurisdictions with strong existing incentives. We welcome the opportunity to discuss these opportunities further and look forward to an efficient and effective development of an Australian Hydrogen Production Tax Incentive.

Kind Regards



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