

19 July 2024

Production Tax Incentives Unit
Corporate and International Tax Division
The Treasury
Via email: HydrogenProductionTaxIncentive@treasury.gov.au

To whom it may concern,

Subject: FUTURE MADE IN AUSTRALIA: HYDROGEN PRODUCTION TAX INCENTIVE

Thank you for the opportunity to provide a submission on the proposed Hydrogen Production Tax Incentive, via the Future Made in Australia reforms. InterContinental Energy (ICE) recognises the importance of the Federal Government (the 'Government') to provide suitable support that can harness and accelerate the potential of green hydrogen and large-scale renewables.

ICE is the founding developer of four ultra-scale projects globally, two in the Middle East and two in Australia - the 26GW Australian Renewable Energy Hub (AREH) located in Western Australia's Pilbara region, and the 50GW Western Green Energy Hub (WGEH) in the far southeast Goldfields of Western Australia. At full scale, these two projects will annually produce up to 1.6 and 3.5 million tonnes of green hydrogen respectively.

Due to their scale, these projects place ICE at the forefront of the global energy transition and create unique opportunities for First Nations engagement and empowerment, engineering design and the application of ESG principles

ICE believe that these projects will substantially contribute to the objectives sought by the Government and provide collaboration and commercial opportunities for state-based strategies that seek to maximise the potential for the development of green hydrogen, notably the provision of clean energy to support the decarbonisation of hard-to-abate emissions from industry.

In order for the macro benefits of the National Hydrogen Strategy and related commercial benefits are realised, the Government needs to ensure the current and projected breadth of giga-scale hydrogen projects receive support such as the Hydrogen Production Tax Incentive (HPTI).

This emerging industry will also create jobs and business opportunities during construction and operations, as well as develop new export markets globally, which in turn provide stable supply chains and trade relationships for proponents operating and investing in Australia.

Summary

The potential size and longevity of green hydrogen projects is unique and unlike previous investment super-cycles for major capital projects in Australia. The staggered phasing of projects over decades (both in construction and operation), as well as the necessary recapitalisation of renewable energy infrastructure throughout this phasing, will offer multi-generational benefits and the ability to support long-term decarbonisation efforts globally.

ICE believe that the government must play a critical role to support the first mover advantages to Australia and ensure early financial feasibility of projects, particularly as hydrogen production emerges as a new commodity to accelerate decarbonisation efforts globally. Financial feasibility should be supported to the extent that projects can attract and obtain capital to develop and become a cheap, low-carbon source of energy, both domestically and internationally.

The Proposed HPTI provides a suitable mechanism to bridge the early economic gaps that may occur as technology improves and new infrastructure is built to facilitate the green energy transition.

We request the Government re-consider the following key aspects:

- Remove the deadline for an Financial Investment Decisions (FID) of 30 June 2030 given the industry are incentivised to move as fast as possible given the HPTI has an end date of 2040.
- Leverage existing reporting requirements to support clear and objective community benefit principles in order to receive the HPTI, given the HPTI is binary in nature.
- Hydrogen projects are capital intensive and significant capital expenditure will be committed in early development phases. Ensure the HPTI is a is an immediate refundable tax offset given early stages of large scale project may not yield an immediate taxable profit.

Eligible production

Based on our experience in managing the project timelines for both AREH and WGEH, we would encourage the Government to remove the deadline of a Financial Investment Decision (FID) by 30 June 2030.

Having a deadline linked to FID risks a subjective test to what is considered an FID and puts at risk a project proceeding if a HPTI is not achieved. If projects are delayed for reasons beyond a developer's control the HPTI deadline would be missed.

The removal of the FID threshold would provide certainty to potential recipients on receiving some benefit, while still providing an incentive for projects to progress as quickly as possible, given the program is planned to be completed by 2040.

ICE has first-hand experience of sustaining the delicate balance of supply chains, finance and offtake for green hydrogen and the need to retain flexibility for how and when government assistance is provided.

While ICE plans for an FID for its projects prior to 30 June 2030, a variety of regulatory, economic and financial variables may place pressure on timeframes to secure environmental approvals, agreements with First Nations and major infrastructure upgrades.

Community Benefit Principles

ICE have taken a collaborative and innovative approach to the development of community benefits, noting the size and location of AREH and WGEH are forecast to deliver significant long-

term benefits to regional areas and traditional owners of previously underdeveloped areas of land.

The suggested alignment to existing reporting requirements is an important principle, in order to reduce any additional compliance processes.

The use of a complex assessment criteria may be difficult to implement where projects are giga-scale and need to advance through several stages before producing hydrogen. Projects that are significantly smaller in scale and/or likely to be based closer to population centres would retain a notable advantage to demonstrate tangible and short-term community benefits, despite the fact that these projects (and their benefits) are unlikely to aggregate to the scale required to meet decarbonisation targets and nation building economic prosperity and regional economic diversification.

ICE would caution against the use of prescriptive and subjective assessment criteria to determine community benefits to receive a binary HPTI. Instead, a straightforward assessment of community benefits should be undertaken that reflects the binary nature of the production tax incentive.

Immediate refundable tax offsets

Given the significant upfront capital required in developing and financing renewable hydrogen projects such as AREH and WGEH, there is a likelihood that large depreciation/amortization charges and rolled-forward tax losses may result in minimal early benefit from the HPTI.

It is recommended that the HPTI is provided as an immediate refundable tax offset, irrespective of the financial profit after tax delivered by projects. ICE recommends leveraging existing frameworks for providing refundable tax offsets, such as the Research & Development tax incentives available to early stage developers,.

ICE would welcome the opportunity to discuss these matters in further detail, as the Future Made in Australia reforms continue to develop.

Yours sincerely,



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InterContinental Energy