



18 July 2024

Director
Production Tax Incentives Unit
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Director,

We thank you for the opportunity to provide a submission on the Hydrogen Production Tax Incentive (HPTI) as a part of the Future Made in Australia legislation. We are strongly supportive of the legislation package as a whole which will foster a new wave of Australian industries in renewables, batteries, minerals and hydrogen, to meet the growing global demand for climate solutions.

Zero Carbon Hydrogen Australia (ZCHA) is the peak body for the green hydrogen sector in Australia and a division of the Smart Energy Council. The 200+ renewable hydrogen members across Australia and the region, making us the largest peak body in the Asia-Pacific region.

The Smart Energy Council (SEC) is the peak independent body for Australia's smart energy industry, representing over 1,300 residential, commercial, and large-scale renewable generation and storage companies, smart transport firms, as well as the renewable hydrogen and ammonia industry.

Before the response to specific questions from the consultation paper, we must emphasise the following essential points regarding the HPTI:

1. The HPTI needs to be legislated in a timely manner to ensure market stability and create mechanisms for projects to be able to make final investment decisions. With final investment decisions hinging on this support being guaranteed, the urgency of this legislative package will make a significant impact on the speed of growth for this industry.
2. The HPTI must be confirmed to be stackable with other industry incentives received. This includes Hydrogen Headstart and the Renewable Fuels Scheme in NSW.

THE INDEPENDENT BODY FOR THE SMART ENERGY INDUSTRY IN AUSTRALIA

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3. The 0.6kg of carbon dioxide equivalent per 1kg of hydrogen is a very achievable target, and should not be compromised. In our experience with certifying projects through our Zero Carbon Certification Scheme, this emissions target has not been an issue. We support this emissions target and recognise the value of it being administered by the Guarantee of Origin Scheme.
4. We recommend a review of the HPTI towards the end of the life of the scheme to ensure there are no adverse effects from the end of the scheme. Offtake agreements are set at 15 years for most projects, so the 10 year maximum time frame for HPTIs should be reviewed with a view to extend if found necessary at the time for the industry.
5. We are supportive of the decision to ensure the HPTI has been written to be technologically agnostic, not limited to hydrogen produced by electrolysis.

Should you wish to discuss any of this submission further, please contact:
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Please provide any feedback on the impact this incentive may have on your community, facility or industry.

The HPTI will improve certainty for investment in renewable hydrogen projects in Australia and is strongly supported by Zero Carbon Hydrogen Australia. The Inflation Reduction Act has already seen substantial diversion of renewable hydrogen investment into the United States rather than other countries including Australia. Australia is back in the global green hydrogen race with these HPTIs.

Please provide any feedback on the proposed eligibility criteria.

The proposed eligibility criteria of the HPTI is suitably defined to allow for open participation in the incentive.

What key factors would need to be accounted for in a definition of an eligible facility for the purposes of the HPTI?

The most essential factor for the definition of an eligible facility is that it must be green. The HPTI must be ready to move green projects that recognise Australia's superpower ambition. This should incorporate projects that are both for domestic consumption, and export.

What key factors would need to be accounted for in a definition of Final Investment Decision (FID) for the purposes of the HPTI?

Industry members have varied interpretations of FID, and some acknowledge the concept of "soft FID," making it somewhat ambiguous and nebulous. All members agree that Financial Close is a far more accurate and legally binding finance document, particularly relevant for projects subject to financing.

For projects with equity funding, the critical point of decision could be the construction contract, where 50% of the construction costs must be executed. This would involve a legally binding agreement with a third-party contractor, indicating significant commitment and readiness to proceed with the project.

In summary:

- Financially funded projects: Financial Close
- Equity funded projects: 50% of construction costs paid

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

Similar to the response above, this is ambiguous and varies significantly from project to project. As a rough estimate, we would expect projects to be reaching first production around 2 years after FID on average. However this can vary depending on a vast array of factors.

For foreign investors, do you currently encounter any impediments to investment in projects that would be eligible?

As long as the company is paying tax within the Australian tax system, there should be no impediments. This position on the HPTI will strengthen Australia's investment portfolio of inbound invest opportunities, so that foreign investors seeking to work in Australia will be eligible to partner with an Australian entity in order to do so.

We have seen jurisdictions recognise the importance of tax production incentives to create supply and scale of green hydrogen. We recognise that overseas jurisdictions have introduced programs like a contracts for difference model which support demand and offtake of green hydrogen. We understand there will be no impediments for these projects to receive the HTPI in Australia as well as offtake CFD in other jurisdictions.

Please provide any feedback on the proposed emissions intensity threshold of 0.6kg of carbon dioxide equivalent up to the production gate.

This emissions intensity threshold is very achievable for true green hydrogen projects. The Zero Carbon Hydrogen Australia certification scheme has found that all of the projects certified have easily met the requirements for 0.6kg equivalent up to the production gate.

It must also be noted that this should be the average over a period (e.g., 12 months). We are not seeking time-matching through the Guarantee of Origin Scheme.

Other than electrolysis, what production processes would meet this emissions intensity threshold now or before 2030?

The additional production processes include biofuels and waste hydrogen from certain projects, noting this is not the full extent of production processes.

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

Zero Carbon Hydrogen Australia represents the industry at all scale and ambition. We recognise that projects under 10 MW of capacity have a significant role to play in developing the green hydrogen market in Australia. While we support the size limit of 10 MW for projects to receive the HPTI, we recognise there will be projects under this threshold that are critically important to scaling green hydrogen production in Australia.

Projecting forward to larger sites such as intermodal hubs - which should be a key focus on the roll-out - the demand by 2027/28 will be easily met by smaller-scale production that can be scaled progressively. For smaller projects, the planning and safety regulations are easier and simpler, so that they have the potential to come on line sooner, which will benefit the Government in showing early gains for taxpayers' investment in commercial deployment of hydrogen.

One view for consideration is when there is a single project spread across various locations, such as a hydrogen highway, there should be consideration for this to be classified as a single project and the production to be accumulated to reach the threshold.

Projects for critical minerals processing and the development of green silica and iron should be considered as critically important to building capacity. These strategically important projects for decarbonisation and developing the industry that fall under the 10 MW threshold should have a mechanism for support provided to them.

For renewable production processes other than electrolysis, is using the minimum capacity requirement of “equivalent to a 10 MW electrolyser” appropriate? Is another definition of capacity required to deal with other production pathways?

This is a suitable definition, however for a more appropriate and consistent capacity requirement for renewable hydrogen production processes other than electrolysis would consider the specific characteristics of each production pathway. Defining capacity based on renewable energy input and hydrogen output, adjusted for process efficiency, would provide a more accurate and comparable measure across different technologies.

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.

Grid-connected electrolyser projects should match their hydrogen production with electricity generated by the same electricity grid or one that falls within the same geographical region.

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.

Additionality ensures that the renewable energy used is new and not just existing capacity. This means the hydrogen production process must stimulate new renewable energy projects, contributing to decarbonisation. By matching hydrogen production with grid electricity, these projects show they are increasing renewable energy supply and genuinely reducing carbon emissions. We recognise the importance of additionality, but also implore the Australian Government to seek these requirements from all sectors and industries.

We recognise that the GO Scheme will not be administered using time-matching.

Please provide any feedback on the proposed administrative approach.

We recognise that the Australian Taxation Office, through the taxation system will be primarily responsible for the administration of the HPTI scheme. As this process is built and rolled-out, it should be done in collaboration with likely proponents for the

HPTI and industry representation. The administration of this scheme should not result in an unreasonable burden for the industry to access the HPTI.

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?

The proposed GO scheme is strongly supported, however there are two key points to be considered.

The first is that its role should be assessed in the delivery of the Climate Change Act 2022, the 82% renewables by 2030 target and other Australian Government climate change and energy policies; as well as against the merits of extending the existing Renewable Energy Target to 2040. There is no reference in the Department of Climate Change, Energy, Environment and Water (DCCEEW) discussion paper to the Climate Change Act 2022, to the ambition for at least 82% renewables by 2030, to proposed reforms to the Safeguard Mechanism, to the Chubb Review or to the Capacity Investment Scheme, the latter of which was agreed to by all Australian Governments after the release of the policy position paper. We urge the Australian Government to continue to move forward with the implementation of the GO Scheme to provide assurance to industry and ensure it is in place and ready to help facilitate the emission requirements of the HPTI.

The Australian Government should assess the merits of the Guarantee of Origin scheme in relation to the policy measures noted above. It is critical to assess whether the Guarantee of Origin scheme as proposed would help, or hinder, the delivery of the 82% renewables target. It may be less complex and more effective to simply modify and extend the existing Renewable Energy Target to 2040.

The proposed GO scheme should be used to give households, businesses, investors and customers robust and easily understood information in relation to the green credentials of particular products. The proposed Guarantee of Origin scheme as currently designed fails this test by providing an identical framework for renewable hydrogen and fossil fuel hydrogen.

The second change required is that fossil fuel hydrogen, ammonia and metals must be removed from any Guarantee of Origin scheme. Fossil fuel hydrogen is inconsistent with the Climate Change Act and the 82% renewables by 2030 target.

The Smart Energy Council's submission¹ on Australia's Guarantee of Origin Scheme Policy Paper provides further detail on what needs to be accounted for in the proposed design of the scheme. Please refer to this for a more comprehensive understanding of our position.

The Government may legislate the administrative arrangements in subordinate legislation. Please provide any feedback on this proposed approach.

For any further legislation or changes, there must be industry participation and collaboration in the process to ensure it is fit for purpose.

What obligations should be imposed on potential recipients of the HPTI to ensure the community benefit principles are met?

Zero Carbon Hydrogen Australia acknowledges that the HPTI aligns with the Future Made in Australia framework, which will involve community benefit principles. We do not seek additional requirements for the renewable hydrogen industry that are not applied to other industries or sectors.

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)?

Please refer to the response above.

Are there any additional objectives that you consider important? What obligations might support these?

Please refer to the response above.

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<https://consult.dcceew.gov.au/aus-guarantee-of-origin-scheme-consultation/download/fil29dc4dd6046105932713e>

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?

While in the interest of supporting transparency associated with public funding, we must recognise the importance of retaining business competitiveness and not disclosing information that makes projects vulnerable to market loss.

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

The HPTI is a tax incentive designed to close the gap between the current cost of producing green hydrogen and the levels of foreign government subsidies, namely the US IRA, to keep Australia competitive. As such, this should be a standalone support and not adversely affect any other forms of Commonwealth, State or foreign government support. Any other benefits must be stackable as they are related to different supports and purposes, such as Hydrogen Headstart supporting the first movers in the Australian industry to build the market.

No 'windfall profits' are going to be made in the domestic hydrogen production industry in the short-term, and by limiting this support, it could fracture Australia's place in the global hydrogen landscape.

What are the key practical considerations with receiving support through the HPTI and the Hydrogen Headstart program simultaneously?

As stated above, due to Hydrogen Headstart being a grant for large first-movers in the hydrogen industry, it is separate from the HPTI as a tax incentive for all producers of green hydrogen above 10 MW.

HPTI will need to be 'stackable' with Headstart and other funding sources (e.g. state government) in order to have a positive impact on early mover projects and help achieve the Government's objective of 1 GW of electrolyser capacity by 2030. The current Hydrogen Headstart funding (\$2 billion) will not achieve the Government's 1 GW target on its own, given the increased gap between the cost of hydrogen production and the price end users are willing to pay (or be competitive internationally).