

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

By email: HydrogenProductionTaxIncentives@treasury.gov.au

Date: 12th July 2024

Subject: Hydrogen Production Tax Incentive

Iberdrola Australia delivers reliable energy to customers through a portfolio of wind and solar capacity across New South Wales, South Australia, Victoria, and Western Australia. Iberdrola Australia also owns and operates a portfolio of firming capacity, including open cycle gas turbines, dual fuel peaking capacity, and battery storage. Our development pipeline has projects at differing stages of development covering wind, solar and batteries. This broad portfolio of assets has allowed us to retail electricity to over 400 metered sites to some of Australia's most iconic large energy users.

Iberdrola Australia is part of the global Iberdrola group. With more than 120 years of history, Iberdrola is a global energy leader, the world's number-one producer of wind power, an operator of large-scale transmission and distribution assets in three continents making it one of the world's biggest electricity utilities by market capitalisation. The group supplies energy to almost 100 million people in dozens of countries, has a workforce of more than 37,000 employees and operates energy assets worth more than €123 billion. Our global expertise positions us to deliver an integrated approach to decarbonisation across Australia, including through our hydrogen and networks businesses.

Our experience in green hydrogen and derivatives

The Iberdrola Group is a pioneer in green hydrogen development, with two operational plants since 2022. The Puertollano plant, equipped with a 20 MW electrolyser capacity, serves a local ammonia plant. Additionally, the Hydrogen Refueling Station (HRS) in Barcelona powers city buses using a 2.5 MW electrolyser. Iberdrola has also undertaken projects in the UK and established a strategic alliance with bp in Spain. Furthermore, the company is at the forefront of Green Ammonia and E-Methanol projects within the Iberian Peninsula. These initiatives, along with similar projects in the US, Brazil, and Australia, provide valuable insights into regulatory environments, technology scalability, and sustainability. Leveraging this knowledge, combined with Iberdrola Australia's expertise, underscores Iberdrola's commitment to the green hydrogen industry.

Overview of our submission

Iberdrola welcomes the opportunity to make a submission on the design implementation details for the Hydrogen Production Tax Incentive¹.

We support the proposed mechanism which will help close the gap for new hydrogen projects. While an economy-wide carbon signal would deliver the most effective support for

¹ <https://treasury.gov.au/consultation/c2024-541265>

all investors, a clear price signal by this scheme allows for straight forward implementation in financial models.

In particular, we support the approach of pricing the production of a specific commodity rather than individual projects. This is consistent with the success of the Renewable Energy Target, which introduced competitive pressures amongst developers and revealed market prices. Large-scale schemes that target or underwrite only new projects are problematic because they discourage innovation and potentially penalise early investors. Auction processes can also restrict innovation and require projects to align with a single cutoff date, rather than entering the market when available. This is particularly important for hydrogen projects which seek to align many different input and output contracts.

In parallel, decarbonisation mandates for specific sectors will help create the corresponding demand-side signal for decarbonisation. Examples, aviation and maritime sectors have global (and European) targets to decarbonise, with financial incentives for compliance. Industry and road transport are being regulated at European level, to boost the industrialisation and decarbonisation of Europe with the NZIA (Net-Zero Industry Act).

We note the greatest challenge is whether the price signal has been set correctly. This could include being higher than required (similar to the historical rooftop solar premium feed-in tariffs that were fixed and resulted in windfall gains as technology costs fell) or being too low to incentivise investment. Given current technology costs and the lack of broad based carbon externalities being priced into decisions, it is credible that \$2/kg (non-escalating) for 10 years is too low to close the gap on its own. While we recognise that Hydrogen Headstart and other incentives are designed to work in parallel, this may reduce the benefits of the HPTI as outlined above.

We have provided specific responses to the questions below.

	Iberdrola Australia response
1. Please provide any feedback on the impact this incentive may have on your community, facility or industry.	As noted above, we support the proposed structure. This makes assessing project economics clearer. Further clarity may be required as to what complementary measures are being pursued.
2. Please provide any feedback on the proposed eligibility criteria.	<p>We support the proposed criteria. However, it may be appropriate to further consider the final role for the delivered hydrogen or downstream products.</p> <p>In particular, hydrogen or derivatives intended for the export market might not deliver as much value domestically as hydrogen directed to domestic decarbonisation. Domestic usage of hydrogen can have a “multiplier” effect on local jobs, investment, and decarbonisation, supporting local businesses and industries to shift away from fossil fuels. If hydrogen is exported, it may see the Australian government effectively subsidising the decarbonisation of other countries. It may therefore be appropriate to require export hydrogen to be receiving comparable support by the importing market (either directly or indirectly due to local carbon pricing) to ensure that both countries</p>

	<p>are receiving benefit. Alternatively, domestic hydrogen usage, potentially for specific target industries, could receive a multiplier on its tax credits to reflect that benefit to the Australian industry.</p> <p>Finally, local demand side initiatives could and should be pursued to encourage and facilitate innovation and investment.</p>
3. What key factors would need to be accounted for in a definition of an eligible facility for the purposes of the HPTI?	No specific comments.
4. What key factors would need to be accounted for in a definition of Final Investment Decision (FID) for the purposes of the HPTI?	No specific comments.
5. How long do you expect it will take for projects to reach first production following FID?	We expect that a hydrogen project should reach COD within 3 years of FID.
6. For foreign investors, do you currently encounter any impediments to investment in projects that would be eligible?	We are not currently aware of any hydrogen-specific barriers for foreign investment.
7. Please provide any feedback on the proposed emissions intensity threshold of 0.6kg of carbon dioxide equivalent up to the production gate.	<p>We support a strict threshold that delivers only very low emissions hydrogen. For example, blue hydrogen (if ever practical) creates a long-term emissions risk with no clear risk allocation. To the extent that CCS is viable in the future, it will likely be a limited resource and so should only be used for the most challenging abatement tasks (or for negative abatement, such as biomass+CCS). As such, there is no long-term benefit for Australia for supporting non-green hydrogen.</p> <p>Further detail should be provided on how the 0.6kg figure was determined and will be measured, to ensure all participants are analysing projects on the same basis. We note this figure is broadly consistent, but slightly higher, than the 0.45kg threshold in Section 45V Clean Hydrogen Production Tax Credit in the USA.</p>
8. Other than electrolysis, what production processes would	No specific comments.

<p>meet this emissions intensity threshold now or before 2030?</p>	
<p>9. Please provide feedback on the proposed minimum capacity requirement (equivalent to 10 MW electrolyser)?</p>	<p>We consider that, given the design of the scheme, a lower threshold is appropriate (e.g., 1 MW). In general, we support flexibility for installing electrolysers well-sized to local conditions, and local demand requirements. While larger scale projects are important for driving investment in utility scale projects that can lead technologies down the learning curve, by avoiding an auction process, the HPTI allows for a more neutral approach.</p>
<p>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?</p>	<p>No specific comments.</p>
<p>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.</p>	<p>We agree with the proposal to require generation in the same grid. While we don't consider that highly specific spatial or temporal matching is required, requiring renewable energy to have been produced in the same grid and within a limited historical time window establishes a connection between the hydrogen production and its renewable energy.</p>
<p>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</p>	<p>We agree with the comments in the consultation paper that time matching increases the complexity of new projects and, given the Commonwealth and jurisdictional commitments to 65-82% by 2030, provide limited benefit. Time matching means capital intensive electrolysers cannot be run as hard as they otherwise would be, and may mute spot price signals for efficient operation (e.g., if renewable energy is supplied through a run of plant PPA and electrolysers do not have appropriate spot price signals for operation). It is also stricter than any current requirements for demonstrating 100% renewable energy in Australia.</p>

hydrogen production.	We further note that in the absence of a single policy for driving renewable energy (carbon pricing, renewable energy target, etc.) it is difficult to partition those renewable projects required for decarbonising the existing grid and those required for new load growth (electrification, hydrogen, etc.) Additionality requirements would therefore be difficult to implement (beyond the recency requirement for GO production).
16. What obligations should be imposed on potential recipients of the HPTI to ensure the community benefit principles are met?	Engagement with the local and wider community, and appropriate benefit sharing, is a key component of project development. By definition, projects that are eligible for the HPTI are those that have achieved development approval and reached FID. We therefore caution whether Australian tax law is the appropriate legislative tool for imposing further requirements on hydrogen projects. In particular, we note this is distinct from grant funding where projects may be competing by offering different levels of benefit sharing.
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)?	
18. Are there any additional objectives that you consider important? What obligations might support these?	<p>As noted above, projects with domestic offtakers can deliver additional benefits to the local community as well as long-term risk proofing of Australian industry against climate change and future cuts. Directing hydrogen towards domestic supply improves energy security for Australia, ensuring that high quality renewable resource sites are available for domestic requirements and are not simply exported for the benefit of international economies.</p> <p>While long-term exporting of hydrogen or hydrogen derivatives provides significant economic growth opportunities for Australia, it is crucial that the Australian government does not solely fund hydrogen which is exported to decarbonise other economies.</p> <p>It may therefore be appropriate for hydrogen exports to receive matching support from the destination economies. Alternatively, hydrogen being directed to domestic decarbonisation activities could receive a “multiplier” on the available tax credit to ensure that such activities are rewarded appropriately.</p>
19. Recipients of the HPTI may be subject to additional transparency and disclosure	No specific comments.

<p>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?</p>	
<p>20. How should entities proposing to claim the HPTI be required to demonstrate compliance with tax obligations?</p>	<p>No specific comments.</p>
<p>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?</p>	<p>No specific comments.</p>
<p>22. Who should the reporting requirements be imposed on? For example, on the recipient entity, or central reporting through a regulator?</p>	<p>No specific comments.</p>
<p>23. Please provide feedback on the proposed treatment of the interactions between the HPTI and other forms of Commonwealth, State or foreign government support.</p>	<p>No specific comments.</p>
<p>24. How can the HPTI best leverage other types of support? Please</p>	<p>No specific comments.</p>

provide examples relevant to your project if possible.	
25. What are the key practical considerations with receiving support through the HPTI and the Hydrogen Headstart program simultaneously?	Our comments on Question 18 regarding domestic vs international hydrogen usage are relevant here too.
26. Are there specific interactions with other support programs that should be considered?	No specific comments.

We look forward to continuing to support the government to deliver green energy, fuels, and metals. If you would like to discuss this submission, please contact Tahlia Nolan (GM Hydrogen) on tahlia.nolan@iberdrola.com.au or 0436 641 226

Yours sincerely

Dr Joel Gilmore
GM Regulation & Energy Policy