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12 July 2024

Director, c/o Adrian Gebers
Production Tax Incentives Unit
Corporate and Internal Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Adrian,

RE: HAMR Energy submission on hydrogen production tax incentive - July 2024

HAMR Energy is an emerging renewable chemicals and fuels company with the vision of becoming a leading renewable methanol provider in the Asia-Pacific region. Our flagship project, the Portland Renewable Fuels Project, is a world scale advanced biofuel development that will produce 300,00tpa of renewable methanol in Portland, Victoria. The project will utilise forestry residue from the Green Triangle sustainable forestry area and green hydrogen from renewable electricity in the production of renewable methanol.

Methanol is a leading green hydrogen derivative due to its ability to support decarbonisation across multiple sectors, including as a direct fuel replacement in shipping or a feedstock to Sustainable Aviation Fuel. Renewable methanol can reduce the carbon intensity of hard to abate sectors, such as shipping by approximately 90%.

The following points summarise the feedback on the production tax incentives from HAMR Energy.

- Tax incentives are a game changer for Australian decarbonisation and strongly supported HAMR Energy.

- Hydrogen is only part of the decarbonisation puzzle and HAMR believes that tax incentives as well as capex grants are the most effective way to support the nascent industry. Together tax incentives and grants mitigate the reliance on ongoing handouts (subsidies), they are less susceptible to political change and are administered by a transparent and highly efficient mechanism (ATO).
- Decarbonisation support is difficult, highly technical and nuanced. HAMR hopes that the ongoing feedback collates information from Europe, California and USA (IRA) and leverages their 10-20 years of experience to develop a suitable process.
- The GOO scheme is critical and needs to be detailed, considered and able to deal with biomass, varying carbon intensity and aligned with global strategies. Having an onerous, incomplete and costly process will have the impact of making Australian hydrogen developments uncompetitive on a global scale. Tax incentives, are a competitive advantage for Australia.
- HAMR would prefer that time matching was not included in hydrogen production as it has the potential to unintentionally slow development and prevent Australia competing at pace in the hydrogen industry. Carbon intensity scales would be an alternative. Or if time matching is considered necessary then a timing of more than 4 years is proposed to allow the catch up of renewable energy developments. If production of hydrogen is linked directly to renewable power developments, then Australian hydrogen development will be disadvantaged significantly, and global capital may not flow to the industry.

HAMR has provided feedback below by directly addressing the questions posed within the discussion materials. We acknowledge that the feedback has been pulled together with limited time given the other activities that are ongoing and is not comprehensive on every question.

HAMR Energy thank Treasury and DCCEEW for the opportunity to provide feedback on the proposed hydrogen production tax incentive. The incentive has the potential to be a critical and welcome step in the development of the hydrogen economy in Australia.



Sincerely

Alex Smith

Director

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(1) Please provide any feedback on the impact this incentive may have on your community, facility or industry.

The HTPI will have a significant **positive impact on HAMR** and the Portland renewable Fuels Project (PRF) and the broader renewable methanol industry in Australia by improving economic viability and accelerating timelines for reaching final investment decision (FID). The potential of the incentive has already had material impact in supporting us attract the required capital for the project.

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

HAMR support the eligibility criteria proposed. The emissions intensity threshold of 0.6kg of CO₂-e per kg of hydrogen is achievable with our renewable electricity-based production method. However, we would be looking for clarity through the GOO scheme about the consideration of the entire value chain of fuel and hydrogen production when assessing emissions intensity.

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

HAMR support the definition of eligible facilities proposed.

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

HAMR would propose that the tax incentive scheme does not need to have a definition of FID as it is based on production. Therefore, if there is no production then there is no tax credit. The ATO could collect prospective information to assess the potential for future liabilities.

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

We expect it will take a **minimum of 36 months** from FID to first production for the Portland Renewable Fuels Project. The critical path is likely to be electrical infrastructure. Some indications are that lead time in some instances may extend beyond 36 months.

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

NA

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

HAMR support the notion of an intensity threshold. A key element of consideration will be in the details of the assessment and ensuring that the process is capable of supporting hydrogen produced from biomass, battery storage of green power and stored hydrogen.

Other jurisdictions and HAMRs response to the low carbon fuel standards references a carbon intensity scale. By having a single threshold the market will only achieve the threshold. Which

means that optimisation is not achieved. Low cost options to reduce emission may not be pursued and opportunities to progress beyond the threshold are not pursued as there is no economic incentive.

A lifecycle approach may be suitable, that accounts for the carbon intensity over an extended period of time. We note that the government is fast-tracking the initial phase of the Guarantee of Origin Scheme to measure and certify emissions intensity across the supply chain of key products. The GOO scheme This could provide a standardised framework for assessing and verifying our emissions intensity.

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

Hydrogen derived from sustainable biomass will also meet this threshold and we would recommend it is included in the scheme. This approach is consistent with the Safeguard Mechanism where sustainable or biogenic CO₂ has a CO₂e of 0.0.

In the context of renewable methanol production the hydrogen sourced from the biomass is a key feedstock in the process and important to lower the overall cost of production of the product.

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

HAMR would propose that rather than have a 10MW threshold it be done on an equivalent hydrogen production basis. This would allow hydrogen from other sources, such as biomass, to be included.

(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?

Refer above.

(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.

HAMR energy would prefer there to be no requirement for time matching or grid matching. However, a matching in the east coast market would be understandable. A process that is simple and compatible with many different scenarios would be ideal. Areas such as storage, import of hydrogen and hydrogen from other sources should all be part of the mix.

(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.

HAMR would prefer that additionality is not required. This is because linking a hydrogen or renewable fuels development with an upstream power project has the potential to add sufficient complexity to make the development unbackable.

If time matching or additionality is required then a time period of more than four years would be recommended with the impact being very clearly stated in the strategy and not a complete losing of the tax incentive.

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

The proposed co-administration by the ATO and DCCEEW, leveraging the Guarantee of Origin Scheme is supported by HAMR. To optimize the process, we suggest:

- Developing clear guidelines on how integrated facilities (like our hydrogen to methanol plant) should report hydrogen production.
- Providing a mechanism for pre-approval or advanced rulings on eligibility to reduce uncertainty for project developers.
- Coordination with the Net Zero Economy Authority, which will act as a catalyst for private and public investment and major project development.

(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?

HAMR support alignment of schemes. GOO needs to be intelligent and aware of the options for different processes and not impose a burden that is over and above other international processes. In addition the GOO scheme needs to;

Consider hydrogen from biomass in the overall emissions intensity calculation.

Be integrated with the discussion on LCLF [media release](#).

Be scalable and provide support commensurate with the level of decarbonization.

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

HAMR would like to see smart and considered policy that aligns all the processes without a preconceived idea of your preferred solution, focus on the key objectives of decarbonization, GDP growth and national production.

In the past the focus has been on hydrogen production at \$2/kg, cost parity with fossil fuels and preferential grant support. This consultation is a welcome change.

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

HAMR believe that the requirement for social license, indigenous support and environmental approval are best set at a local level and tax regimes should not be dependent on a subjective to additional requirements.

(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)?

Potential recipients of HPTI have the potential to be able to progress projects that are only just economic and reliant on multiple sources of Government support. The Government will be able to see if HPTI recipients are making significant profits and rather than try and make projects even more marginal, consider that there is the potential to optimize the HPTI beyond 2040 to optimize the value of the tax incentive for Government.

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

Not answered by HAMR

(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?

Not answered by HAMR

(20) How should entities proposing to claim the HPTI be required to demonstrate compliance with tax obligations?

Not answered by HAMR

(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?

Not answered by HAMR

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

The reporting requirements should not be incremental to other reporting processes. Decarbonization methodologies that are adopted should be consistent with global standards. This is particularly relevant to GOO which must be consistent with global standards.

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

The pace of change is very fast in this space. HAMR believe that the key objectives that will ensure long term viability are:

- Tax based incentives that remove the Political element of decision making.
- Carbon intensity based processes that are molecule agnostic.
- Learning from California, Europe and Japan that have lead in this space is paramount.

(24) How can the HPTI best leverage other types of support? Please 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?

HAMR support both programs, however, given that Hydrogen Headstart is a government subsidy we believe that the tax incentive combined with grants should be implemented in place of the Hydrogen Headstart subsidy.

(26) Are there specific interactions with other support programs that should be considered?

Federal interactions and collaborations and consultations that are ongoing.

The Federal ones that we are aware of currently are:

- Low carbon liquid fuels consultation.
- Guarantee of origin ongoing consultation is highly relevant.
- ACCU EOI is a supporting program.
- Transport decarbonization consultations.
- State Government consultations in Victoria are numerous and ongoing.