

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

Given the various business conditions for hydrogen projects in Australia (such as Capex/Opex and hydrogen sales prices), it is expected that the profit and tax levels from hydrogen production will fall short of the \$2/kg-H<sub>2</sub> Hydrogen Production Tax Incentive (HPTI). Consequently, the effectiveness of the taxation incentive in enhancing the business viability of hydrogen projects, relative to the intended investment support from the Australian government, is likely to be quite limited. In this context, only companies that are already generating profits and paying taxes through other ventures within the same entity would be able to fully benefit from the HPTI. This raises the question of whether the differential impact of such taxation incentives across various scenarios has been adequately considered.

**2. Please provide any feedback on the proposed eligibility criteria.**

For the reasons mentioned above, if a cash refund or liability reduction is provided only for the tax incurred in the relevant year over a 10-year period, the effect of the HPTI will be very limited. A more effective measure that aligns with the \$2/kg principle would be to provide a tax credit for the hydrogen produced over the 10-year period and allow this credit to offset taxes incurred even beyond the 10-year timeframe.

The Australian government's hydrogen strategy has focused on producing and using hydrogen in niche hubs to foster domestic demand. This approach is based on the belief that a strong domestic hydrogen industry foundation is necessary to develop export capabilities. Supplying hydrogen for domestic use supports the Australian government's goals of industry diversification, decarbonization, job creation, and enhancing the value of domestic products. Additionally, it is anticipated that establishing the infrastructure to export hydrogen within Australia will be challenging in the near future. Similarly, developing the technology and infrastructure to transport, crack, and store hydrogen abroad will take considerable time.

Therefore, considering the effectiveness of industrial support and the practicality of implementation, it would be more appropriate to provide greater financial incentives for hydrogen production intended for domestic use. Support for hydrogen production aimed at export should be gradually expanded.

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

The timeline to reach commercial operation can vary significantly depending on the definition of FID and the specific conditions of each project. A key factor is the time required to secure various permits and approvals from the Australian Commonwealth and State Governments. Additionally, the availability of industrial infrastructure, such as industrial zones, transportation networks, and utilities, at the project's outset is closely tied to the overall timeline.

From a market perspective, the expected delivery times from different electrolyser manufacturers and the choice of model can also greatly influence the project's delivery schedule. Assuming that all

conditions for achieving FID are adequately met and the project proceeds through a standard development process, it is estimated that reaching commercial operation would take approximately four years. Among these factors, the permitting process is the most time-consuming and uncertain. Therefore, it is crucial for the government to actively support efforts to expedite this process and simplify procedures to reduce uncertainty.

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

To secure and lease government-owned land, an agreement with the First Nations regarding land use is required under the Native Title Act. In this process, the government mandates that investors negotiate directly with the First Nations and provide compensation, without intervening or playing an active role. This method of securing land use rights is markedly different from the typical land acquisition procedures in many other countries. Each First Nation has different negotiation representatives, who may not always be consistent, and varying requirements, and they do not adhere to standard negotiation procedures. Consequently, it is very challenging and time-consuming for foreign companies to navigate and resolve these issues on their own. To attract foreign investment and expedite the development of renewable projects, active government involvement is crucial.

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

We fully comprehend the Australian government's intention to offer incentives for the use of renewable hydrogen produced via electrolysis, as it aligns with the government's policy direction. However, we are keen to understand the rationale behind the specific threshold of 0.6kg. We would appreciate an opportunity to learn about the background and benchmarks that were considered in establishing this figure.

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

The purpose of the HPTI is to ensure that a wide range of hydrogen projects can benefit from it, unlike the previous approach by ARENA, which selectively supported specific projects. The requirement for a minimum scale of 10MW per site is likely based on the understanding that producing marketable hydrogen at smaller scales would be challenging. If the scale requirement were too large, it could deter project development in a market where finding demand for hydrogen is currently difficult, thus contradicting the inclusive intent of the HPTI. Therefore, the 10MW eligibility criteria seem appropriate.

Given the current state of the hydrogen industry in Australia and the capabilities and track records of companies, a scale of around 10MW is ideal for starting hydrogen projects. However, since securing demand is essential for the success of these projects, it is crucial for the government to understand and address the needs and desired benefits of potential consumers to create demand and ensure sustainable market growth.

- 7. 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.**
- 8. 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.**

To kickstart the hydrogen industry in Australia and gradually build the necessary infrastructure, more flexible standards need to be applied in terms of grid-connected renewable energy procurement. Therefore, we fully agree with the position and views presented in the consultation paper.

These grid-related conditions can particularly disadvantage hydrogen project development in areas with weak grid infrastructure. In regions where the concept of a public grid is not clearly defined and private power networks are established, there is uncertainty about the extent to which they can be considered part of the same grid. For instance, the northwestern region of Western Australia has abundant renewable energy potential, making it well-suited for hydrogen production, but it is very weak in other infrastructure aspects.

Although the government has proposed support measures through the Rewiring the Nation policy to strengthen the WA grid, there are too many stakeholders involved, and the feasibility and timing of private sector-led grid restructuring are highly uncertain. Therefore, within the timeframe of the current Headstart and Taxation Program, the uncertainties and constraints of the power grid are too significant for hydrogen project developers to rely on these possibilities. A more proactive role from the government is required to improve the market and business environment.

- 9. 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 current RET (Renewable Energy Target) scheme is valid until 2030, and its extension beyond that date remains uncertain. ARENA's various support programs have recognized hydrogen as renewable if the amount of electricity used in its production is matched by the purchase of LGCs (Large Scale Generation Certificates) and surrendered to the regulator. We are interested in understanding how the government's GO scheme will interact with the existing RET system. For example, if Renewable Energy Certificates are obtained, will the GO scheme also consider the threshold of less than 0.6kg to be met? Additionally, what happens if RECs are obtained but emissions exceed 0.6kg?

- 10. Are there specific interactions with other support programs that should be considered?**

We believe that guidelines should be provided on how various government support programs and tax incentives are applied simultaneously. The overlap of multiple programs can create situations where it is difficult to assess the actual economic impact of tax incentives.

Additionally, a comprehensive review is needed to determine the most effective way to provide various

forms of government financial assistance, ensuring they align with the government's intended objectives and improve the investment environment for investors. For example, grants provided by ARENA are subject to normal taxation treatment as income, with no special taxation arrangements applied. This creates an inefficient structure where a portion of the government support is returned as taxes. This complexity is likely to increase with the introduction of new tax incentive programs. The ATO and the Australian government should consider excluding grants provided by ARENA and other government agencies from taxation to ensure the efficient application of incentives.

In particular, the ARENA's Advancing Renewables Program, which provided upfront Capex support to promising projects, grants funds during the early construction phase, and taxes are incurred at the same time. This creates a time lag between when the HPTI is provided and when taxes are incurred, limiting the opportunity to fully utilize the HPTI to offset the grant tax. Therefore, if the taxation of ARENA grants is unavoidable, aligning the timing of tax recognition of ARENA grants with the provision of the HPTI would be an effective way to support projects.