

Renewables, Climate and Future Industries Tasmania

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Thank you for the opportunity to provide a response to the Hydrogen Production Tax Incentive (HPTI) consultation paper. Renewables, Climate and Future Industries Tasmania (ReCFIT) was established by the Tasmanian Government to recognise the alignment between a rapidly transitioning energy sector and the impacts and opportunities of a changing climate. ReCFIT is responsible for advising the Tasmanian Government on the State's strategic direction on climate change, renewable energy growth and emissions reduction to help shape Tasmania's future while maintaining a secure, sustainable, and affordable energy system.

ReCFIT is supportive of the HPTI and its objective of supporting the growth of Australia's renewable hydrogen industry. Tasmania is ideally positioned to make the most of the opportunities available in the global energy transition utilising existing and expandable renewable energy resources firmed by reliable hydro power, fresh water and access to industrial zones with high quality infrastructure to become a leader in large-scale renewable hydrogen extraction at relatively low cost. Tasmania is currently 100 per cent self-sufficient in renewable electricity and the Tasmanian Government has legislated a world-leading target to double renewable generation to 200 per cent (from 2020 levels) by 2040, with an interim target of 150 per cent by 2030.

The *Tasmanian Renewable Hydrogen Action Plan*, published in 2020, sets out a vision to harness the opportunity to develop a world class hydrogen industry. Tasmania is an attractive investment location for developing green ammonia/methanol export industries and there is domestic demand for green hydrogen by major industrials and other sectors of the economy looking to decarbonise that will provide benefits to the long-term economic prosperity of Tasmania. As an island state, Tasmania in particular is also likely to be reliant on green hydrogen derived e-fuels for the shipping and maritime sector, heavy transport and aviation sectors to reduce emissions.

Tasmania has several hydrogen projects in development, both domestic and export scale. Working with proponents over the past two to three years on these projects has given us a sound insight into the commercial challenges associated with progressing to financial close and project commencement. This knowledge has informed our feedback on the proposed HPTI scheme.

On 13 May 2024, the Tasmanian Minister for Energy and Renewables, the Hon Nick Duigan MLC, announced that Countrywide Hydrogen, part of ReNu Energy, will become Tasmania's first major green hydrogen producer with support from the Tasmanian Government's Green Hydrogen Price Reduction Scheme (GHPRS). The GHPRS funding operates on a per kilogram basis of green hydrogen sold to end-users. Payments will be based on the difference between an agreed sale price and the cost of production. Countrywide Hydrogen will produce hydrogen at multiple locations

around Tasmania and supply hydrogen for a diverse group of users using 5 MW electrolyzers at each location. Furthermore, the HPTI will likely assist one or more green hydrogen production projects for the Tasmanian Green Hydrogen Hub (TGHH) at Bell Bay. The TGHH will transition Bell Bay to a net zero industrial precinct and the HPTI may facilitate this at a faster pace.

Given the limited timeframe for consultation and analysis, ReCFIT has only specific comment to make on a few questions in the consultation paper, and views expressed in this submission should not necessarily be interpreted as the view of the Tasmanian Government.

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

ReCFIT's major concern with the proposed design of the HPTI is the requirement that each production facility have a minimum capacity equivalent to a 10-megawatt (MW) electrolyser.

ReCFIT's view is that imposing a 10 MW minimum capacity will unduly constrain the market's ability to select the most efficient project configuration and result in some otherwise viable smaller projects not proceeding, or being structured in a way that is designed to meet the scheme's eligibility criteria, rather than the most efficient way to meet customers' needs. It may also represent a missed opportunity for local communities to benefit under the scheme, if less than 10MW scale projects are scrapped because they cannot access the HPTI.

The green hydrogen industry has high barriers to entry and allowing a suite of project sizes will facilitate smaller scale but more efficient projects that are located close to local customers. This will also allow time for demand to build, and we note hydrogen projects are very scalable. . Smaller (e.g. less than 5 MW hydrogen production facilities) also allow easier access to new behind the meter solar/wind connections, reducing costs for proponents.

Small scale projects across multiple sites projects can provide reliable energy for local industries currently dependent on aging diesel fuel systems, which is important for reducing emissions. Projects co-located at the site where the hydrogen is used, such as hydrogen refuelling stations, may also save on infrastructure costs and grid buildout. However, if projects are required to be of a larger size, this may not fit the existing infrastructure of the co-located site and might require new connections and increased cost of transmission at a new location.

ReCFIT is strongly of the view that the market will determine the minimum size, and placing an arbitrary minimum capacity size will prevent the industry from realising its full potential. However, if it is preferred that the HPTI requires a minimum capacity, it needs to be reduced to 5 MW equivalent or less, or it could allow for entities to include their total production capacity across facilities within a State for example, to satisfy the criteria.

Question 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?

Projects of all scale should be able to indicate to end users the level of compliance with the Produce GO and REGO Schemes.

It is crucial that Tasmania's current renewable hydropower generation is eligible to be counted under the proposed REGO Scheme, including for Tasmanian-based green hydrogen projects that commence prior to 2030. This will help to ensure that hydrogen proponents have access to cost-competitive renewable electricity and that the benefits of Tasmania's clean and reliable renewable energy are able to be fully realised.

Most of Tasmania's hydro-electric generation pre-dates the introduction of the Renewable Energy Target (RET) and as such, is currently not able to attract large-scale Generation Certificates under the RET.

General Comments

ReCFIT supports the HPTI flat \$2 per kilogram of hydrogen, as proponents will most likely have different costs to produce green hydrogen and its derivatives and it is difficult to ascertain a proponent's cost of production from financial statements. Where the production cost of green hydrogen is substantially more than another proponent, it is not appropriate to have a different HPTI for each proponent as it rewards inefficiency. The HPTI should support a "level playing field" approach with a flat rate – for similar reasons, we support removing the arbitrary limit on facility size.

Critical Minerals Production Tax Incentive

ReCFIT has sought input from the relevant area in the Department of State Growth on the proposed Critical Minerals Production Tax Incentive, and advises that the Department is generally supportive of the provision for a tax incentive for the purposes of incentivising downstream critical minerals projects and broadly agrees with the eligibility of processing expenditure outlined in the paper.

The provision of an effective tax crediting for downstream production activities should provide some incentive for further on-shore critical mineral processing, meeting the objectives of the Australian and Tasmanian (in draft) Critical Minerals Strategies.

If you have any further questions regarding this submission, please contact Wendy Kingston, Acting Assistant Director Hydrogen Policy and Regulation by email at Wendy.Kingston@recfit.tas.gov.au

Yours sincerely

A handwritten signature in dark ink, appearing to read 'S. Terry', with a long horizontal stroke extending to the right.

Sean Terry
Acting Chief Executive Officer
12 November 2024