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12 July 2024

bp Australia submission in response to the Hydrogen Production Tax Incentive Consultation

The government's commitment to develop the Hydrogen Production Tax Incentive (HPTI) is very welcome. The HPTI along with other support, such as the Hydrogen Headstart program, provide material incentives for hydrogen investments in Australia. bp Australia welcomes the opportunity to provide a submission to the paper discussing the proposed design and administration of the HPTI. bp is providing this feedback with reference to our experience in developing hydrogen projects in Australia and in other international markets.

Key messages

The development of a low carbon hydrogen industry is an opportunity for Australia. It can support Australia's energy transition, underpin the development of other priority sectors such as green metals production, critical minerals refining and low carbon liquid fuels production, and is also a key export opportunity.

The HPTI, alongside other supports such as the Hydrogen Headstart program, are highly beneficial policies in support of Australian hydrogen projects. The HPTI assists in underpinning decisions to allocate the substantial project development costs and supports investment decisions to execute Australian projects. It helps to position Australian hydrogen investments favourably within a global pipeline of potential investments.

Alone, the proposed $2/kg HPTI may not be sufficient to secure investments, it will be the combination of support the projects can access that will influence investment decisions. Projects taking final investment decision before the end of 2030 will likely need to stack the HPTI with other supports from Commonwealth and State governments, and for export projects, support offered by foreign governments.

Overall, the proposed eligibility criteria are clear and workable:

- bp's Australian hydrogen projects under development would be larger than the proposed minimum 10 MW capacity.
- The proposed carbon intensity threshold should be achievable for most renewable hydrogen projects using electrolysis and 100% renewable electricity. However, for renewable hydrogen produced from biogenic gas or biogenic waste gases it may be more challenging. Urgent work is needed to confirm the carbon intensity calculation methodologies for these pathways.
- Different projects will likely have different processes and definitions for final investment decision. Government will likely need to define what it will

consider as a final investment decision for purposes of eligibility under the HPTI.

- Grid connected renewable hydrogen projects should be able to source most of their renewable electricity certificates from the same grid to which they are connected. Some flexibility might be needed for example to account for unexpected events that leave their or other renewable generators in the same grid out of service for extended periods of time. While the REGO system does allow for some flexibility to manage the proposed requirement for location matching, this may be more difficult for those projects connected to Australia's smaller grids where the REGO pool might be expected to be thinner than in the NEM.
- It is important that the community benefit from the development of an Australian hydrogen industry. We support the inclusion of requirements under the HPTI to ensure supported projects achieve these objectives. Greater clarity will be needed on the nature of these requirements and administration arrangements.

About bp

bp is pursuing projects for which this incentive could be relevant for investment decisions.

These include three separate renewable hydrogen projects:

- The Australian Renewable Energy Hub (AREH), a Joint Venture (JV) between bp, CWP Global and InterContinental Energy. bp is the operator of AREH and is working closely with our JV partners and the Traditional Owners, the Nyangumarta People. AREH could be one of the largest renewable energy hubs in the world. The Project has potential to produce up to 26GW of onshore wind and solar power generation to support the supply of renewable power and renewable hydrogen. Given its size, AREH is planned to be developed in phases, initially focused on decarbonization of the Pilbara through potentially supplying domestic mining customers, powering new critical minerals and enabling green iron processing facilities. At scale, AREH could also produce renewable hydrogen for export. Final Investment Decision (FID) with respect to hydrogen production for the first phase(s) is anticipated to take place before the 2030 timeline proposed for the HPTI.
- Project GERI, where bp is planning more than 14GW of onshore wind and solar power. GERI could supply renewable power and hydrogen for the processing of critical minerals and green steel production domestically, and future export. bp has secured land in the Oakajee Industrial Area in the Mid-west, as well as access to other land in the region for renewables generation. Again, given its potential size, GERI would most likely be developed in phases, with potential for FID decision on the first stage before the HPTI 2030 timeline.
- H2Kwinana, which has been short-listed under the Hydrogen Headstart program and is a recipient of hydrogen hub funding. H2Kwinana plans to supply hydrogen to bp's planned Kwinana Renewable Fuels (KRF) plant, where the hydrogen would be used to make low carbon liquid fuels. H2Kwinana also plans to supply hydrogen to neighbouring industrial hydrogen users. If successful under the

Hydrogen Headstart program, the intention is to take FID well before the 2030 timeline proposed for the HPTI. There is scope to expand the H2Kwinana project in a second phase as demand for supply to neighbouring facilities as well as potential export demand develops. FID for an expanded project could also be taken prior to the 2030 HPTI timeline.

As mentioned above, bp is progressing plans for a renewable fuels project (KRF) co-located with the H2Kwinana project. As part of the bio-refining process, renewable waste gases are collected from the processing and storage of the biofuels (that would otherwise be treated as waste). This renewable waste gas is then used to make renewable hydrogen that is used in the bio-refining process. We understand this hydrogen could also be eligible if it meets the carbon intensity and other eligibility criteria. KRF would require additional hydrogen to what it can produce from its waste gases and is intended to be a foundation off-taker for the H2Kwinana project. Final investment decision for KRF is also planned well before the 2030 timeline proposed for the HPTI.

bp is also a JV partner in the Woodside operated Angel Carbon Capture and Storage hub project, off the coast of Western Australia. This proposed offshore large-scale, multi-user CCS facility near Karratha offers the potential to capture around five million tonnes per annum (mtpa) of emissions from existing hard-to-abate domestic and international sources, with the opportunity to expand. Some of Angel's potential users could pursue the production of low carbon hydrogen from gas with CCS via the Angel hub.

Low carbon hydrogen is a significant opportunity for Australia

The Government's confirmation of an Australian low carbon hydrogen industry as a priority under the Future Made in Australia Act is very welcome. We share the view that the production and supply of low carbon hydrogen is an opportunity for Australia. Establishing a local hydrogen industry not only supports Australia's energy transition, and the development of other priority sectors such as green metals production, critical minerals refining and low carbon liquid fuels, but is also a key export opportunity.

bp's Energy Outlook estimates that as the world decarbonises there is increasing demand for low carbon hydrogen. Low carbon hydrogen helps to decarbonize the energy system through its use in industry and transport for activities that are hard to electrify, and, to a lesser extent, in providing resilience in power systems. The high cost of low carbon hydrogen relative to incumbent unabated fossil fuels, however, means that its significance in the energy system depends on the scale of policy support.

Australia has an opportunity to build a homegrown industry, leveraging its natural advantages of sun, wind and land. However, despite these inherent factors, for industry to invest in Australia, those investments must compete with other investment opportunities internationally, where other governments are also providing significant incentives to secure investments. As is being demonstrated around the world, collaboration between industry and governments is vital. bp commends the Government's efforts to help build momentum and scale for an Australian hydrogen industry.

bp's response to the consultation questions

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

The HPTI, alongside other supports such as the Hydrogen Headstart program, are highly beneficial policies in support of bp's Australian hydrogen projects. The HPTI assists in underpinning decisions to allocate the substantial project development costs and subsequent FID decisions for Australia hydrogen projects. It helps to position Australian hydrogen investments favourably within a global pipeline of potential investments.

It is the combination of these measures that supports investments in the Australian hydrogen industry. For example, our expectation is that the required production subsidy to secure investment in hydrogen projects in the short-term would be greater than the proposed $2/kg HPTI. The additional support provided under the Hydrogen Headstart (and/or other programs) would be needed to move forward.

For those projects that are not successful under the Hydrogen Headstart program, the $2/kg HPTI may not be sufficient to support FID on the same timeframes. For example, it is lower than the US$3/kg available under the IRA – which was the level of assistance needed to keep renewable projects viable in the USA. We do note however that the strict time matching rules that have subsequently been proposed will mean many US projects move down a tier of assistance and are no longer viable. Other markets like the Middle East look to be offering more generous support than the proposed HPTI to the development of their hydrogen industries.

Those projects relying only on the HPTI may be delayed until production costs can be reduced (e.g., through lower electricity costs, improvements in technology like higher efficiency electrolysers) and/or an increase in customer's willingness to pay for the renewable hydrogen (highly linked to the safeguard mechanism compliance cost and their ability to realise a green premium for their own products). These developments are likely to take some time, making it more difficult to take FID in time to access a full ten years of support (likely needed before 2027).

While we acknowledge the HPTI is intended to bring forward investments, consideration could be given to extending the HPTI beyond 2040 to ensure those projects that take investment decision by 2030 can still get a full ten years of support.

We do note that other supports being offered by the Australian Government will also support hydrogen investments. For example, the $1.7billion FMIA innovation fund could help to reduce opex for projects over time, for example, by advancing next generation electrolysers and ultra-low-cost renewable technologies. But these technology developments are unlikely to benefit projects taking FID in the short-term.

Capex support for key infrastructure such as transmission and water are also beneficial, where these investments can be confirmed and fast tracked to align with the HPTI timelines of taking investment decisions before the end of 2030.

bp encourages the Treasury to ensure the HPTI meets the OECD Pillar 2 definition of a "qualified refundable tax credit". If it is not structured to meet the Pillar 2 definition there is a risk a recipient of the HPTI loses its value if it reduces its tax rate below the Pillar 2 effective tax rate applied in Australia.

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

Overall bp considers the eligibility criteria are clear and workable. We anticipate that they would allow a variety of renewable hydrogen projects to be eligible. Whether or not they proceed will likely depend on the combination of support, including the HPTI, they can access.

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

We assume that the HPTI will need to align the definition of a facility with the definition of a facility under the Guarantee of Origin (GO) scheme. We also assume that the entity that registers the facility under the GO scheme would claim the HPTI, or that some system would be established to clearly define what entity can use the GO certificate to claim the related HPTI. Some thought may need to be given to arrangements where a facility is owned by more than one entity, for example under a joint venture.

Some care will be needed if defining the facility with reference to location. For example, some large renewable hydrogen projects may undertake electrolysis across a number of properties to be co-located with the dispersed renewable energy generation assets. These different electrolysers would still be operated as a single facility.

It is also likely that large renewable hydrogen projects may be developed in phases. With discrete investment decisions for the initial phase and then subsequent phases. Once operating these would however be managed as a single facility. While we understand investment decisions to expand capacity made before the end of 2030 would be eligible, clarity might be needed on the treatment of expansions where the investment decision is taken beyond 2030.

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

Investors may have different criteria to take a Final Investment Decision (FID). Therefore, Government may need to define what will constitute an FID decision for purposes of the HPTI.

For bp, a final investment decision typically means a project has been sanctioned to move to execution. The project is fully scoped and costed to a high degree of certainty, with a detailed schedule for works settled. Capital and other resource is allocated to execute the project. Typically, this would mean planning and environmental approvals are in place or well progressed, key terms for procurement of equipment, where relevant terms for power and feedstocks have been agreed, there is a clear pathway to market for the renewable hydrogen, and mitigations are in place for key identified risks. Where material the decision would be announced.

bp does notes the primary driver to bring forward investment decisions will be the desire to access the full ten years of HPTI, which will require not just an investment decision but first production by 2031 assuming the end of the HPTI remains 2040.

Question 5: *How long do you expect it will take for projects to reach first production following FID?*

The time between an investment decision and first production will vary from project to project. For instance, a project on a brownfields site may take less time to move from FID to first production than one on a green fields site. The size of the project might also influence this timing, with larger projects typically requiring more time. The lead time for key equipment is also a major factor, for example, the lead time for an electrolyser is currently three years. A transformer is 2-3 years. If an electricity transmission line needs to be augmented or built this can be even longer. It is reasonable for government to expect at least a three-year lead time from FID to first production, however for the reasons listed above it could potentially be as long as seven years.

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

No, we understand we will need to work through the FIRB process where relevant. bp welcomes commitments from Government to assist projects through this process.

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

Based on the Guarantee of Origin methodology, the proposed emissions intensity threshold appears reasonable to encourage electrolytic hydrogen production using 100% renewable electricity.

Other pathways to produce renewable hydrogen, such as those utilising renewable or waste gases, may find this carbon intensity threshold more challenging to achieve. Further work is urgently needed on the carbon intensity calculation methodologies for these other renewable hydrogen production pathways and for those facilities that might deploy more than one production pathway under the GO scheme.

Question 8: *Other than electrolysis, what production processes would meet this emissions intensity threshold now or before 2030?*

It is possible that production pathways using biomethane and/or biogenic waste gases with or without CCS could also achieve this emissions intensity threshold. Clarity on the approach to calculating carbon intensity of these pathways under the GO scheme is needed to confirm this.

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

All of bp's current Australian hydrogen projects under development would be larger than the proposed minimum capacity.

Over the past several years, the focus of Australian Government policies, strategies and financial support has been to facilitate the scaling of the hydrogen sector. This has culminated with a Hydrogen Headstart setting a minimum 50MW eligibility threshold.

The proposed 10MW capacity requirement provides a pathway for projects and use-cases that do not meet the scale threshold of other policies. However, it is possible that smaller electrolysers could be developed, for example a network of smaller (less than 10MW) electrolysers could be deployed in the future to support hydrogen for mobility.

Question 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?*

The proposal to demonstrate an equivalent capacity for other production pathways is appropriate. However, given electrolysers can be utilised at different rates it would be better to define equivalent to a 10MW electrolyser at a certain utilisation. For example, assuming a 50% utilisation. You could also set an annual volume as the minimum capacity requirement.

Question 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.*

bp's H2Kwinana project would be grid connected and seeks to negotiate a power purchase agreement with a generator connected to the SWIS.

It will not be possible to fully match the load of a grid connected electrolyser at all times within a power purchase agreement, in which case electricity would be taken from the general grid.

This can be a benefit to the grid as there are times when H2Kwinana will be consuming excess renewables from rooftop systems and will be turning down during peak periods- selling back any excess renewables produced under the power purchase agreement helping with both minimum demand and peak demand issues experienced by grids.

For the most part, the GO scheme would allow for these projects to purchase REGOs from generation within the grid to cover their obligations if this were to occur. However, some flexibility may be needed to account for unexpected material outages of renewable capacity within the grid, particularly for projects located in Australia's smaller grids. The NEM is much larger than the SWIS, therefore the REGO pool will be much larger. This could make it easier for NEM connected projects to meet this requirement than similar projects connected to the smaller grids. For example, liable entities under the RET in WA have previously been unable to meet all their obligations by surrendering LGCs from the SWIS, and therefore certificate purchases were made from the eastern states. Rather than a strict rule, there may be benefit in allowing some flexibility – where a small percentage of REGOs for those projects in Australia's smaller grids can be sourced from the national pool.

Question 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.*

While we expect that bp's hydrogen projects will involve the development of new renewable electricity generation capacity, with renewable electricity generation for the most part aligned with timing of production, we agree with Treasury's assessment that strict time matching and additionality requirements can make it harder for hydrogen projects to reach FID.

At present, we think hourly and daily matching is too ambitious and would unduly challenge the development of the sector. We've experienced this in other jurisdictions, where these sorts of requirements have meant many projects are no longer feasible. It is important for policies to encourage the nascent sector to emerge, and not set hurdles too high, too early.

These requirements may be more relevant for future policies as the hydrogen industry develops. We note the Guarantee of Origin does not specify minimum requirements for additional renewable generation, location and time matching, but does allow for these aspects to be reported and certified. We encourage the GO Scheme to be structured to record information such as location and timing of renewable energy.

Question 13: *Please provide any feedback on the proposed administrative approach.*

bp supports the joint administration by the CER, ATO and DCCEEW. We would welcome more clarity on how the arrangements in support of the community benefits objectives will be administered.

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?*

We encourage the government to move as quickly as possible to finalise the arrangements for the GO scheme.

To date, the draft GO scheme and consultation versions of the calculator have not addressed production pathways for renewable hydrogen utilising renewable gases such as biomethane and/or biogenic waste gases. We recommend work be initiated urgently to develop carbon intensity calculation methods to be used under the GO for these production pathways.

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

To influence investment decisions before the end of 2030, there is very little time to finalise policy settings. Therefore, we encourage government to legislate the HPTI and finalise subordinate legislation as soon as possible, ideally before the end of the year.

As soon as the policy settings are finalised and regulated, projects will be able to incorporate the value of the HPTI into their business cases. For those projects still in the feasibility stage, it will help to raise and allocate the significant project development funding needed to develop hydrogen projects. For those projects that are already further developed certainty in policy setting will allow the HPTI to be incorporated into project economics in support of investment decisions.

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

bp supports the community benefit principles as set out in the FMIA Bill. We agree it is important that the community benefit from the development of an Australian hydrogen industry and recent local stakeholder engagements tell us that communities are eager to participate in opportunities presented by hydrogen projects.

In many ways the FMIA community benefit principles align with bp's corporate sustainability framework and related aims. For example, bp has commitments within our sustainability aims to deliver decent work, quality jobs and support local livelihoods. bp also has mandatory internal requirements to regularly consult with communities affected by our operations and seek feedback on potential impacts and mitigation measures.

We understand from the FMIA Bill that there is an intention to require recipients of FMIA support to prepare a Future Made in Australia Plan to report how they intend to achieve outcomes consistent with the community benefit principles.

A community benefits system that establishes best practice guidelines for projects and requires reporting of actions consistent with those guidelines seems workable. For example, ARENA has issued best practice guidelines for engagement with First Nations under the Hydrogen Headstart project. HPTI recipients could report their actions consistent with the guidelines and the actions/commitments arising from those engagements in their FMIA Plans. Similar guidelines could be developed for other aspects of the community benefit principles, e.g. broader community benefits, workforce planning, skills development, workforce participation and local content.

In our experience care should be taken in setting common minimum requirements or benchmarks for HPTI recipients across the board. It is unlikely to be a one size fits all for all projects. For example, positive outcomes sought or benefit sharing agreed with First Nations peoples should first and foremost be informed by those communities. Their views on the nature of benefits and outcomes desired will not be uniform across the country. Similarly, the benefits that the broader community want to see from proponents will differ amongst communities.

Labour market conditions also vary significantly across the country, so projects will have different opportunities to pursue workforce participation objectives. A stretch target in one location may not be difficult to achieve in another.

Also, requirements to strengthen domestic industrial capabilities, including through stronger local supply chains should focus on developing globally competitive local supply chains, with care taken to balance implications for costs and commerciality of the hydrogen projects.

Question 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)?*

There are a number of Western Australian state laws, policies and programs relevant to the community benefits principles of the FMIA.

The *Western Australian Jobs Act 2017* and Western Australian Industry Participation Strategy (WAIPS) provide local industry with opportunities to access and compete for State contracts. Although aimed predominantly at Government procurement, WAIPS provides a model of WA Government expectation where WA Government support is provided to major projects.

The WA Government Department of Primary Industries and Regional Development (DPRID) Aboriginal Economic Development (AED) Program is also designed to facilitate sustainable and lasting increases to Aboriginal economic participation by growing Aboriginal business, increasing Aboriginal employment, and facilitating opportunities for wealth creation and economic empowerment.

The WA Industry Link Portal www.industrylink.wa.gov.au, offers further insight into WA Government local industry participation initiatives. With respect to the Kwinana Energy Hub, bp is obliged to implement Local Participation Plan under its State Agreement which is enshrined in legislation under the *Oil Refinery (Kwinana) Agreement Act 1952*.

In other projects not subject to a State Agreement, where WA Government provides support it requires a Community Development Plan which addresses local industry participation among other community impacts and opportunities.

As part of our grant agreement for H2Kwinana under the Hydrogen Hubs funding, we have agreed to provide a workforce plan, a community engagement plan, a knowledge sharing plan, and a local participation plan consistent with that required under our State Agreement.

If bp is successful in its Hydrogen Headstart application, again we will have obligations related to knowledge sharing, community and first nations engagement and social investments related.

Question 18: *Are there any additional objectives that you consider important? What obligations might support these?*

The community benefit principles set out under the FMIA are comprehensive and a good basis for determining related obligations for HPTI recipients.

Question 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?*

We encourage Treasury to consider transparency, disclosure and knowledge sharing requirements developed by other policies and initiatives, including under the Guarantee of Origin Scheme, Hydrogen Headstart program, and Hydrogen Hubs funding. Public disclosure requirements under these initiatives would suffice for HPTI requirements.

Question 20: *How should entities proposing to claim the HPTI be required to demonstrate compliance with tax obligations?*

We feel that the current process undertaken by the Australian Tax Office on annual tax compliance process reviews and their powers to dispute outcomes are sufficient to ensure that the HPTI rebates are appropriately claimed post lodgement of tax returns.

Any broader requirements could create a situation where the new incentive disturbs the self-assessment regime and potentially the taxpayers right to long standing review, objection and court process on disputed tax outcomes.

bp feels that the Commissioner has the correct powers to manage the tax system and this should be sufficient to pay out the incentive within a reasonable time after lodgement of relevant tax returns. Noting that in the vast majority of cases those eligible are likely offsetting tax they would otherwise pay rather than receiving a refund.

Question 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?*

Under current tax transparency disclosures by the Commissioner of Taxation there is no obligation for the Commissioner to disclose separately the amount of HPTI credit. However, the Commissioner of Taxation is obliged to provide gross assessable income, net taxable income and net tax paid. Community awareness of this incentive should be balanced with its ability to misinterpret net tax payable vs assessable income in current disclosure processes. A separate disclosure by the Commissions of the incentive may be useful in

explaining to the public that it is the Government's wish to invest in this industry via this incentive.

bp also notes that consideration should be given to the tax transparency code. Companies that have signed up to the code have a choice to disclose such incentives, and this might be tightened up to indicate they should disclose.

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

A separate disclosure of this incentive by the Commissioner of Taxation could be beneficial for community awareness.

Consideration could be given to updating the voluntary tax transparency code to indicate recipients of the HPTI who have also signed up to the code should disclose they have received the HPTI.

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

bp supports the proposed approach to allow recipients of the HPTI to also benefit from support and other programs alongside the HPTI. Investment decisions for hydrogen projects will consider the combined value of support provided by the Commonwealth and relevant state government, and for export projects, any policy support provided by the export market government.

Question 24: *How can the HPTI best leverage other types of support? Please provide examples relevant to your project if possible.*

The HPTI could provide greater confidence in FID for those projects that received Hydrogen Hub funding. Our experience is that Hydrogen Hub funding alone is unlikely to be sufficient to support FID for those projects.

The HPTI would also interact with state-based schemes, such as the NSW Renewable Fuels Scheme which has set a legislated target for the use of renewable hydrogen. The HPTI could reduce the costs passed on to end consumers under those programs. Different levels of state-based support mean the HPTI could have different impact on investment decisions in different states.

Projects that can export the renewable hydrogen or a related product, such as renewable ammonia, could stack the HPTI with support provided from export market governments. For example, if they are successful under a Contract for Difference (CfD) offered by Germany or Japan. The combination of these incentives could be sufficient to support FID, with the HPTI making the Australian projects more competitive in these processes run by other governments.

The HPTI would also interact with the Safeguard Mechanism (SGM) and other forthcoming emission reduction policies across the economy. In our experience, the cost of compliance under the SGM is strongly related to willingness to pay for the renewable hydrogen for domestic customers. For example, where customers are looking to displace grey hydrogen, they are willing to pay the grey hydrogen price plus the SGM compliance price. With current policy settings and compliance costs for the SGM, there remains a considerable gap

between the value of the renewable hydrogen under the SGM and the cost of producing the renewable hydrogen. The HPTI would go some way to closing this gap. This could increase the use of renewable hydrogen under the SGM and likely lead to fewer ACCUs being surrendered. As the settings under the SGM tighten over time and potential changes to scheme design are known, it is possible the SMG compliance price will increase which could reduce the need for the HPTI in the long run.

Question 25: *What are the key practical considerations with receiving support through the HPTI and the Hydrogen Headstart program simultaneously?*

If a proponent is successful in receiving Hydrogen Headstart funding and is also eligible for the HPTI, it's reasonable that the value of the hydrogen production credit received under Headstart would reflect the value of the HPTI. As we have indicated, alone the HPTI may not be sufficient to secure investments, but the combination of the HPTI and the Headstart support would be material for those projects able to access both policies.

Final applications for the first round of the Hydrogen Headstart program have already closed before the details of the HPTI have been finalised and legislated. We recommend that any adjustments to the Hydrogen Headstart production credit to reflect the value of the HPTI are made via the administration of the Hydrogen Headstart program through the negotiated contracts with ARENA.

We anticipate that once the HPTI has been legislated its value would be included in the requests for supports under future rounds of the Hydrogen Headstart program and then be considered as part of the competitive process.

Question 26: *Are there specific interactions with other support programs that should be considered?*

Government has indicated that it intends to provide production incentives to both green metals as well as low carbon liquid fuels (LCLF). Both low carbon products are potential offtake for green hydrogen in Australia. While the details of these production incentives are still being developed, if these were to reward carbon intensity improvements, then they could increase the value of the renewable hydrogen to those Australian customers. For example, it is bp's view that the production incentive for LCLFs should set not only a minimum carbon intensity threshold for eligibility, but also reward incremental improvements above this level to encourage greater carbon intensity improvements along the supply chain for the LCLFs. This would provide an incentive to use renewable hydrogen in the production process. Ideally these different production incentives will be stackable with the HPTI.

Similarly, programs that support a reduction in the cost of electricity and related infrastructure are also relevant. For example, the Capacity Investment Scheme (CIS) and the Rewiring the Nation funding. The CIS as currently designed, would only benefit grid connected hydrogen projects. We assume that any value of the CIS for those projects can be stacked with the HPTI. Rewiring the Nation funding will benefit those projects that will use the funded transmission – any delay in these transmission builds could limit the effectiveness of the HPTI, as projects will want a degree of certainty over the availability and cost of transmission to take FID. Again, we assume the value of the Rewiring the Nation funding can be stacked with the HPTI.

Closing

The HPTI can help hydrogen projects in Australia move from development to execution. We certainly see an important role for the HPTI to play in underpinning FID decisions across bp's hydrogen project portfolio.

We urge the Government to move as quickly as possible to finalise the HPTI design and legislate, ideally this year. Given the timelines of hydrogen project development, there is very little time to influence investment decision before 2030.

Thank you for the opportunity to submit our views on the Hydrogen Production Tax Incentive and we welcome further engagement with the Government on Australia's energy transition.