bp Australia Pty Ltd
A.B.N. 53 004 085 616
717 Bourke Street
Docklands, Victoria 3008
Australia

9 Jan 2025

## bp Australia submission in response to the Future Made in Australia (Production Tax Credits and Other Measures) Bill 2024

bp Australia welcomes the opportunity to provide a submission to the Senate Economics Legislation Committee on the provisions of the Future Made in Australia (Production Tax Credits and Other Measures) Bill 2024. Production tax incentives for renewable hydrogen and critical minerals, alongside other complementary measures, are critical to attract local investment and take advantage of the abundant natural resources Australia has to offer.

We support the Bill and urge the Senate to act quickly to pass it into law. This will provide investment certainty for the hydrogen pipeline allowing the HPTI to be immediately incorporated into investment cases, helping to underpin the material project development finance as well as ultimately the final investment decisions to execute projects.

## About bp

bp is pursuing projects for which the HPTI would 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 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. Our discussions to date with customers indicates the HPTI will have a critical role in their decision to use renewable hydrogen, helping to bridge the green premium. The intention is to take FID for H2Kwinana before the 2030 timeline set out in the Bill for accessing 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.

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. This hydrogen could also be eligible for the HPTI 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.

## Renewable hydrogen is a significant opportunity for Australia

The Government's confirmation of an Australian renewable 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 renewable 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 here in Australia as well as globally.


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. The HPTI can help build momentum and scale for an Australian hydrogen industry.

## Production tax incentives are a material investment signal for renewable hydrogen projects in Australia

Australia's world class renewable energy resources have the potential to position us as an industry leader in hydrogen production. However, utilising this advantage to its full potential won't be possible without appropriate policies in place. The HPTI, alongside other supports such as the Hydrogen Headstart program, are highly beneficial policies in support of bp's Australian hydrogen projects. Once passed into law, the HPTI will assist in underpinning decisions to allocate the substantial project development funding and subsequent investment decisions to execute. It helps to position Australian hydrogen investments favourably within a global pipeline of potential investments.

## It makes sense to underpin the HPTI with the Guarantee of Origin scheme

bp welcomed the passage of the Guarantee of Origin (GO) scheme legislation. The GO has been established as a platform for credible and reliable information and it makes sense for the scheme to form the basis for the HPTI, and other incentives and policy.

Aligning the HPTI with the GO will provide clarity around which company is entitled to claim to the tax incentive and ensures a consistent and rigorous approach to establishing the hydrogen meets the carbon intensity and other eligibility requirements for the HPTI.

bp encourages the government to move quickly to provide further details for the GO scheme through establishing the subordinate legislation, particularly for hydrogen and hydrogen derived products.

In particular, bp welcomes the recognition of renewable hydrogen produced from biogenic sources as eligible for the HPTI but notes consultation to date on the GO methodology for hydrogen has not yet included these production pathways. This is urgently needed to allow these renewable hydrogen investments to assess their eligibility with the carbon intensity threshold proposed for the HPTI.

## The proposed eligibility criteria are clear and workable.

Overall, the proposed eligibility criteria that have been set out in the HPTI Bill are clear and workable. We anticipate that the criteria would allow a variety of renewable hydrogen projects to be eligible.

Our feedback on these includes:

- We understand the size threshold for the HPTI is intended to target medium and large-scale production. bp's own Australian hydrogen projects under development would all be larger than the proposed minimum 10 MW threshold.
- 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 investors will likely have different approaches to defining final investment decisions. The Bill's definition of a final investment decision provides clarity on this requirement and allows projects to align their project development milestones to meet these requirements for the purposes of accessing the HPTI. As discussed above, bp's hydrogen projects under development are intended to take final investment decisions in advance of the June 2030 timelines established for the HPTI.
- While we acknowledge the HPTI is intended to bring forward investments, consideration should be given to extending the HPTI beyond 2040 to allow those projects that take investment decision by 2030 but are unable to be producing until later in that decade to still get a full ten years of support. This is particularly relevant for those hydrogen projects under development in remote locations likely the Pilbara where it can be expected that additional time will be needed to get to production following an investment decision e.g., to allow for the development of new transmission infrastructure.
- 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. While the Renewable Energy Guarantee of Origin (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 National Electricity Market.
- We note that the HPTI does not require strict time matching and additionality for electricity generation. We support this approach as hourly or daily matching of generation with hydrogen production is too ambitious given the infancy of Australia's industry. In other jurisdictions these sorts of requirements have meant many renewable hydrogen project are no longer feasible. We do note the GO scheme will allow for hydrogen producers to evidence strict time matching if this is preferred by their specific customers, but it is not necessary to require this for accessing the HPTI.

## Community benefit is important for the longevity of the hydrogen industry

bp supports the community benefits principles under the Future Made in Australia Act. It is important the community benefits from the development of an Australian renewable hydrogen industry. Recent local stakeholder engagements tell us communities are eager to participate in opportunities presented by hydrogen projects.

We recommend community benefit rules for the HPTI are designed to accommodate the specifics of different projects and the outcomes sought by their respective communities. It is unlikely that 'one size fits all' will be suitable.

The explanatory memorandum suggests the community benefits rules may require regular updates. The desire to update or change rules should be balanced with providing a degree of stability for HPTI recipients and the communities they partner with on the expectations with regards to community benefits. Ongoing access to the HPTI will be a factor in a project's ability to investment in community benefits.

The legislation also envisages the ATO may reference a system of accreditation or certification by an expert body to confirm that a recipient has met the community benefit principles. Clarity on the expectations and certification criteria will be needed. Too much discretion within the process has potential to introduce uncertainty for investments.

## Production tax incentives should be expanded to other priority industries

It is bp's view that production tax incentives could also be useful in supporting other priority industries identified under the FMIA. bp welcomed the identification of Low Carbon Liquid Fuels and green metals as priority industries for the FMIA and the Government's indication it would develop production incentives for these industries.

bp considers production tax incentives similar to those provided for renewable hydrogen to be beneficial to low carbon liquid fuels production as well. Once the Bill has been passed, we would encourage expansion to provide these supply side incentives for Low Carbon Liquid Fuels. Like renewable hydrogen, supply-side incentives would send a strong signal to investors in domestic production of these fuels.

## Conclusion

bp supports the Bill and welcomes the HPTI as an important investment signal. Timely passage is crucial to support investment decisions on large scale hydrogen projects like those being developed by bp. Given the timelines of hydrogen project development, there is very little time to influence investment decisions before 2030. With tight timelines and intense global competition for funding, clear government support like the HPTI can attract investors to Australia.


Thank you for the opportunity to submit our views on the Future Made in Australia (Production Tax Credits and Other Measures) Bill 2024. We welcome further engagement with the Senate Economics Legislation Committee as it finalises its consideration of the Bill.