

To: Department of Infrastructure, Transport, Regional Development, Communications and the Arts

Via website: <https://www.infrastructure.gov.au/have-your-say/consultation-future-made-australia-unlocking-australias-low-carbon-liquid-fuel-opportunity>

Date: 18th July 2024

Subject: Green Metals Consultation

Iberdrola Australia delivers reliable energy to customers through a portfolio of wind and solar capacity across New South Wales, South Australia, Victoria, and Western Australia. Iberdrola Australia also owns and operates a portfolio of firming capacity, including open cycle gas turbines, dual fuel peaking capacity, and battery storage. Our development pipeline has projects at differing stages of development covering wind, solar and batteries. This broad portfolio of assets has allowed us to retail electricity to over 400 metered sites to some of Australia's most iconic large energy users.

Iberdrola Australia is part of the global Iberdrola group. With more than 120 years of history, Iberdrola is a global energy leader, the world's number-one producer of wind power, an operator of large-scale transmission and distribution assets in three continents making it one of the world's biggest electricity utilities by market capitalisation. The group supplies energy to almost 100 million people in dozens of countries, has a workforce of more than 37,000 employees and operates energy assets worth more than €123 billion. Our global expertise positions us to deliver an integrated approach to decarbonisation across Australia, including through our hydrogen and networks businesses.

Our experience in green hydrogen and derivatives

The Iberdrola Group is a pioneer in green hydrogen and derivatives development, with two operational plants since 2022. The Puertollano plant, equipped with a 20 MW electrolyzer capacity, serves a local ammonia plant. Additionally, the Hydrogen Refueling Station (HRS) in Barcelona powers city buses using a 2.5 MW electrolyzer. Iberdrola has also undertaken projects in the UK and established a strategic alliance with bp in Spain. Furthermore, the company is at the forefront of Green Ammonia and E-Methanol projects within the Iberian Peninsula. These initiatives, along with similar projects in the US, Brazil, and Australia, provide valuable insights into regulatory environments, technology scalability, and sustainability. Leveraging this knowledge, combined with Iberdrola Australia's expertise, underscores Iberdrola's commitment to the green hydrogen industry.

Overview of our submission

Iberdrola welcomes the opportunity to make a submission on the future of low carbon liquid fuels in Australia¹. We agree that developing low emissions fuels, particularly those produced through Australia's competitive geographical advantages, are a critical pathway to unlocking local jobs and investment for Australia in a net-zero world.

In general, we consider that a "push and pull" approach is most effective at delivering policy change. For example, the Large-Scale Renewable Energy Target (demand side "pull") was coupled with short, sharp "pushes" (such as Queensland's 'Solar 40' underwriting scheme, that was increased to 'Solar 120', but which ultimately led to unlocking over 3 GW of large-scale solar investment driven by the LRET). The demand side pull created strong incentives for offtakers to seek low-cost and/or high value projects, while early projects were derisked. Together, push and pull policies can help share the costs, risks, and benefits of decarbonisation between suppliers, offtakers, and government.

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Demand side

On the demand side, an economy-wide carbon signal would deliver the most effective support for all investors. The Safeguard Mechanism may be able to provide similar signals, particularly if its coverage is expanded over time. This would allow all investors to co-optimize across different decarbonisation opportunities and provide a clear, long-term signal for new projects.

Alternatively, clear mandates for utilisation of green fuels over time would help support investment cases. Clear targets provides signals for all participants that developing and investing in low emissions fuels will not be a financial drag on the business but in fact be a competitive advantage.

This is particularly critical for businesses that currently produce or use large quantities of various fuels. Such businesses are likely to have high levels of expertise that could be leveraged during the transition, but may find it difficult to develop business cases for diversifying their their fuels in the absence of requirements that we all “move together”.

In particular, relying only on voluntary demand is problematic, as investors have little certainty of long-term demand and potentially buyers may be highly sensitive to transient cost pressures. In the absence of a properly priced carbon externality, relying on voluntary demand also creates a “tax on being good”, which can further limit uptake.

Mandates would need to be set with enough lead time to ensure the supply side can be developed, and with a level of flexibility that balances uncertainty of supply with the need to drive ambitious investments.

In general, implementation through low carbon fuel standards allows for greater flexibility and market discovery of price signals than explicit volumetric mandates. Less prescriptive schemes also create pathways where schemes can be merged in the future, such as with the Safeguard Mechanism, so as to allow more efficient delivery of the overall emissions reduction targets.

Supply side

Schemes that target or underwrite only new projects are problematic because they discourage innovation and potentially penalise early investors. For example, investors must consider the risk that future projects could be subsidised at a higher rate or materially shift the supply-demand balance that underpinned early investment cases. Therefore, while such schemes may seem appealing in the near-term, they create an uncertain and challenging investment environment that may not support sustainable industry development.

We also do not support ‘contracts for difference’ schemes as the primary mechanism for procuring projects, which require government to “pick winners” and shifts risks onto consumers. It also reduces market signals that allow for efficient allocation of resources. More generally, auction processes also restrict innovation and require projects to align with a single cutoff date, rather than entering the market when available.

Instead, broad based “push” incentives such as production tax credits that apply to all green fuels produced (with potentially varying rates of incentives for different resources or domestic/international destinations) provide simple, clear signals to investors. They are easily incorporated into business cases, with early projects being rewarded by virtue of earlier cash flows. By providing top-up investments, they preserve market signals and ensure that suppliers have incentives to seek out the valuable fuels and markets (i.e., the highest net value).

We note that, in terms of setting any production incentives, “first of a kind” projects have costs above the simple production cost gap between conventional fuels. These include technology uncertainty, the need to secure significant capital investment, changing relationships both upstream and downstream of your operations (suppliers and customers). It may be challenging to capture all these factors in a single price; instead, as noted above, we recommend that supply side pushes be coupled

with demand side pulls, where true prices can be discovered and flexibility and risk can be correctly priced.

Emissions threshold

The paper proposes that fuels should have a 50% lower emissions relative to conventional fuels to be eligible. Fuels with 50% lower emissions are unlikely to play a material role in the zero-emissions future required within the next 10-20 years. It is therefore unlikely that taxpayer support for such fuels will deliver long-term value to Australia.

Therefore we recommend either:

- a) Our preferred approach is that any support for a specific fuel is proportional to its relative emissions intensity reduction. This could either be through a direct scaling (with support proportional to the reduction in emissions intensity of the fuel relative to a conventional baseline) or could be through bands, similar to the various production tax credit support bands under the USA 45V Hydrogen Tax Credit scheme. This would also provide a smooth pathway for integration into the Safeguard Mechanism.
- b) Otherwise, only zero (or close to zero) emissions green fuels should receive supply-side support.

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Yours sincerely

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