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ENERGY & INFRA UPDATES
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What's new in Australia's Energy Transition?
The latest infrastructure and energy updates

1. **Proposed new tax incentives to support investment into renewable hydrogen**

2. **The new EU Corporate Sustainability Due Diligence Directive may impact Australian companies**

3. **New investment opportunities for offshore gas and carbon capture projects**

4. **Federal Government support for investment into new renewable energy projects in South Australia and Western Australia**

5. **Federal Government expands funding for Guarantee of Origin Scheme**

1 Proposed new tax incentives to support investment into renewable hydrogen

Key takeaway

The Federal Government is planning to establish a new hydrogen production tax incentive regime to attract investment into renewable hydrogen production for eligible projects in Australia. The estimated cost to the Federal budget of this support mechanism is reported to be A$6.7 billion over 10 years from 2024-25 (and an average of A$1.1 billion per year from 2034-35 to 2040-41).

Key details

The proposal involves an A$2 incentive per kilogram of renewable hydrogen produced by eligible projects.

The criteria for eligible project includes:

- Renewable hydrogen production: Hydrogen must be produced using renewable energy sources;
- Emission intensity: Production must have an emission intensity of less than 0.6kg of CO_2 per kilogram; and
- FID: Final investment decision must be reached by 2030.

The proposal has not yet been passed into Australian law and will need to be tracked carefully in light of the upcoming Federal election in Australia.

2 The new EU Corporate Sustainability Due Diligence Directive may impact Australian companies

Key takeaway

The EU's Corporate Sustainability Due Diligence Directive (**CS3D**) which entered into force on 25 July 2024 will require in-scope companies to adopt and implement due diligence policies and processes to identify and address adverse human rights and environmental impacts. Australian companies will be directly impacted if they meet a financial threshold and may be subject to penalties if they fail to comply.

Key details

An Australian company will be directly impacted (i.e. "in scope") by the CS3D if it generates a net turnover in the European Union of more than EUR 450 million in the financial year preceding the last financial year or if it is the ultimate parent company of a group that on a consolidated basis reaches this financial threshold. Even where a company does not meet this financial threshold, it may be indirectly impacted by reason of the activities of other companies within its group and/or as a result of pressure by external stakeholders for those companies to be 'CS3D compliant'.

Companies to whom the CS3D directly applies will be obliged to carry out certain actions including adopting and implementing due diligence policies and processes to identify and address adverse human rights and environmental impacts with which these companies may be involved, either (i) through their own operations, (ii) those of their subsidiaries or (iii) through business relationships in their chain of activities. The CS3D will also require these companies to adopt and put into effect a transition plan for climate change mitigation. The maximum penalty for a failure to comply with these obligations will be at least 5% of the relevant company's net worldwide turnover in the previous financial year. The CS3D also has a civil liability regime for companies relating to alleged human rights or environmental violations in their supply chains.

We have previously published briefings on the CS3D which can be accessed here and here.

3 New investment opportunities for offshore gas and carbon capture

Key takeaway

The Federal Government has finalised new offshore exploration permits for gas and carbon capture in waters off South Australia, Victoria and Tasmania on 23 July 2024 to support energy security and the transition to net zero emissions.

Key details

In the recent application round for permits that opened in April 2024 and closed in June 2024, offshore exploration permits have been issued to several companies covering areas in the Otway and Sorrell Basins, which span waters off South Australia, Victoria, and Tasmania.

The permits will help ensure a stable gas supply to firm up renewable energy generation as aging coal plants are retired, addressing potential gas shortfalls predicted by 2027. The permits also include provisions for carbon capture and storage (CCS), which is crucial for reducing emissions and meeting climate targets.

The announcement that 10 x CCS exploration permits will be finalised speaks directly to the Future Gas Strategy released in May 2024 committing the Australian Government to promote the growth of CCS projects and “to provide regulatory and administrative certainty for offshore CCS projects”, with a goal to stimulate the sector in Australia.

We have published a briefing on the future of gas in the energy transition which can be accessed via this link.

4 Government support for investment into new renewable energy projects in South Australia and Western Australia

Key takeaway

New Federal Government support mechanisms have been announced in South Australia and Western Australia to facilitate ongoing investment into new renewable energy projects and strengthen the local workforce, supply chains and increased community engagement including with First Nations participants.

Key details

South Australia and Western Australia have become the first states to sign Renewable Energy Transformation Agreements with the Federal Government:

- Under the South Australia Agreement, the Federal Government will underwrite developers to build 1 GW of new wind and solar projects in South Australia, and 400 MW of new storage capacity.

- Under the Western Australia Agreement, the Federal Government will underwrite developers to build at least 740 MW of new solar and wind power across the state, in addition to 1.1 GW of new storage.

Additionally, the second Capacity Investment Scheme (CIS) tender opened on 23 July 2024 which is seeking to deliver 500 MW of clean energy in respect of the Western Australian Wholesale Energy Market. Registration for CIS Tender 2 is open until Monday 12 August, with project bids accepted until Monday 19 August.

5 Federal Government expands funding for Guarantee of Origin Scheme

Key takeaway

The Federal Government has doubled its funding for the Guarantee of Origin Scheme to A$70.4 million under the latest Federal budget. The Scheme, which is currently under development, will provide for the issuance of digital certificates proving the origin of, and emissions associated with the transportation and production of, certain products including hydrogen.

Key details

The Scheme is intended to support the growth of green industries in Australia and will initially address hydrogen production. The Scheme is an internationally aligned assurance framework designed to track and verify emissions associated with hydrogen and renewable electricity produced in Australia, and aims to provide transparency and credibility for low-emission products, facilitating their acceptance in both domestic and international markets.

It is anticipated that the Scheme will be expanded over time to cover further sectors, including additional low-carbon liquid fuels (including SAFs), biomethane and biogases, and green production of steel and aluminium.

The Scheme will play a key role in supporting the new Hydrogen Production Tax Incentive regime – addressed as item 1 above – as the digital certificates issued under the Scheme are intended to evidence eligibility for applicable tax credits.

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