Fortescue slams Biden hydrogen incentive rules

Australian Financial Review
April 22, 2024 Monday
Print & First Editions

Section: COMPANIES AND MARKETS; Pg. 19

Length: 500 words

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Body

Fortescue says the proposed design of the Biden administration's green incentives scheme could triple the cost of low-carbon hydrogen projects and stifle growth in the sector.

The iron ore group has an ambitious strategy to become a major force in hydrogen and renewable energy, and has previously outlined plans to build a $US550 million ($857 million) green hydrogen project in Arizona.

Its criticisms of the draft eligibility rules come ahead of ***Fortescue***'s quarterly update on Wednesday, when it is expected to outline whether they will force changes to the Arizona plant.

Hydrogen can be made with zero carbon emissions if renewable electricity is passed through water by a machine called an electrolyser.

Fortescue was hoping to use tax credits delivered as part of the $US369 billion Inflation Reduction Act, which is expected would almost halve the cost of some projects in the United States.

But ***Fortescue***'s enthusiasm has waned since the US Treasury issued draft regulations known as "45V" which provide the detail on eligibility for the tax credits. ***Fortescue***'s biggest problem is the requirement that companies match each hour of production to an hour of renewable power generation and consumption to be eligible.

The rule is designed to ensure that subsidies are not given to hydrogen made from fossil fuels when solar and wind power are not available.

The "hourly matching" rule will force hydrogen producers to either cease production when renewables are not available - undermining productivity and viability - or sign up for excess renewable power from diverse sources to improve the chances of having clean energy available at all times.

Fortescue has urged the government to instead consider "annual matching" - a system that would allow a producer to rely on non-renewable power at times, so long as it sourced extra renewable power at other times and ultimately consumed as much power as it generated over the course of a year.

In submissions to Treasury, ***Fortescue*** has warned that "hourly matching" would increase the cost of an 80-megawatt green hydrogen facility by "between 140 and 200 per cent". The comment appears to be a reference to ***Fortescue***'s Arizona project, which will be an 80-megawatt plant that makes green hydrogen for refuelling trucks.

Asked by The Australian Financial Review whether the unfavourable draft rules would force ***Fortescue*** to alter the scope of the approved Arizona project, a spokesman signalled there were unlikely to be changes until the eligibility rules were finalised.

"When 45V guidelines are finalised, we will assess how they impact our US operations and make the decisions necessary to ensure our green energy projects are economic and profitable," he said. "***Fortescue*** believes with or without government incentives there will be a place for green hydrogen and green ammonia projects in the US."

The questions about eligibility are an example of how the details of the IRA are still being thrashed out, almost two years after legislation passed Congress.

Load-Date: April 24, 2024