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Safeguard Mechanism Reform

Department of Climate Change, Energy, the Environment and Water (DCCEEW)

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By email: Safeguard.Mechanism@dcceew.gov.au

Dear Safeguard Mechanism Reform Team

RE: SAFEGUARD MECHANISM CONSULTATION: INTERNATIONAL BEST PRACTICE BENCHMARKS & PRODUCTION VARIABLES UPDATE:

Woodside welcomes the opportunity to comment on the Safeguard Mechanism (Mechanism) international best practice benchmarks consultation and production variables update consultation, which are occurring in parallel. Given the linkages, and for simplicity, we have combined our response to both consultation processes.

In addition to our submission, we support the broad direction of the submissions made by the Australian Petroleum Production & Exploration Association (APPEA).

As we have outlined previously, a fair, robust and transparent Mechanism can lead to a reduction in Australia's emissions, including by encouraging businesses to invest, innovate and adopt new practices and technologies. However, it is important that this goal be pursued in a manner that supports Australia's competitiveness in a decarbonising global economy. It is within this frame that we have made our submission.

Our full submission to the consultation is attached as Appendix 1, but in summary, we:

International best practice benchmarks consultation:

- **Recommend** the identification of best practice facilities be broadened to top quartile (or similar) facility level performance to ensure representative facilities are used to support detailed production variable calculations.
- **Recommend** that the process for setting production variable benchmarks should include a review of the overall baseline for new facilities to ensure it is representative of current international best practice facilities and conditions.

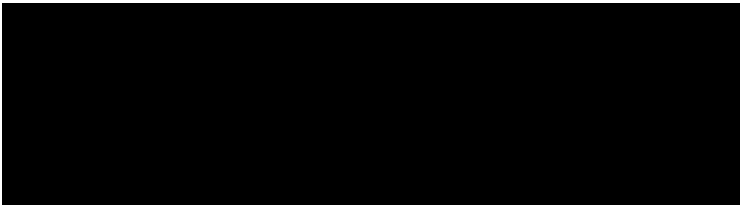
- **Support** the principle to set minimum datasets as well as the principle to adjust this criterion based on Australian production output and number of facilities. The methodology proposed is insufficient to align with one of DCCEEW's objective to 'maintain Australia's competitiveness in a decarbonising global economy'. It also risks international best practice settings being impacted by outlier data points that are not representative of global performance.

Production variables update consultation:

- **Acknowledge** the draft default emissions intensity of 0.928 t CO₂-e per tonne of reservoir carbon dioxide.

We appreciate the opportunity to provide our views on these critically important matters and remain available to meet with DCCEEW to discuss our feedback.

Yours faithfully



Appendix 1: Woodside response

SETTING INTERNATIONAL BEST PRACTICE BENCHMARKS: CONSULTATION PAPER

Consultation topic	Details in Consultation Paper	Woodside response
International best practice benchmarks		
<p>Identifying the best practice facilities and data suitability.</p>	<p>The best practice benchmark will be based on the facilities that have the lowest emissions intensity of production, located anywhere in the world, for which data can be sourced that is appropriate of setting the benchmark.</p>	<p>Woodside recommends that the identification of best practice facilities be calculated more broadly by considering top quartile (or similar) facility level performance. This will ensure representative facilities are used to support detailed production variable calculations.</p> <p>Woodside notes that setting best practice benchmarks, without consideration of broader industry trends, increases the risk that policy settings will be influenced by outlier facilities where low emissions intensity performance is unrelated to technology selection or design options available in Australia.</p> <p>For example, there are circumstances where the lowest emissions intensity oil and gas facilities are not representative of Australian conditions or global industry performance. Wood Mackenzie emission benchmarking data highlights that North Sea oil and gas facilities that benefit from hydroelectric power from the shoreline are the lowest global emissions intensity facilities. The top two or three facilities in this data set have emissions intensities multiple times lower than the performance of the next top 20 facilities globally. Setting an international best practice benchmark based on the top two or three</p>

Consultation topic	Details in Consultation Paper	Woodside response
		<p>outlier facilities would result in policy settings based on technologies that are not replicable at scale in our areas of operation and not representative of global oil and gas industry performance.</p> <p>Woodside supports using emissions data that is consistent with the relevant international reporting standards and acknowledge that the guideline will factor the differentiation in Australian and international reporting.</p> <p>Woodside recommends that production variable level intensities should be calculated considering the facility's performance holistically and not by combining the lowest emissions intensity production variables from other facilities.</p> <p>Woodside notes that correctly apportioning production variable emissions at a sub-facility level, based on globally available data, will be complex and consideration should be given to apportioning these emissions consistently and transparently.</p> <p>Woodside recognises that access and availability to reliable data across facilities will be challenging. Woodside suggests that a focus on selecting representative facilities where data is available, considering top quartile (or similar) facility level performance, will lead to better policy outcomes.</p> <p>Woodside supports the Department's proposal to exclude pilot, non-commercial, highly subsidised and under-construction facilities.</p>

Consultation topic	Details in Consultation Paper	Woodside response
<p>Data should be appropriate for the Safeguard context.</p>	<p>The best practice benchmarks will use the production variables already defined for the industry average emissions intensities, which are used for setting the baseline for existing facilities.</p>	<p>As stated above, best practice should be considered at a facility level and not at an individual production variable level. Choosing the best performing production variables from different facilities risks setting intensities that are not representative of actual global performance, and by extension risks Australia's competitiveness.</p> <p>Woodside supports the proposal of aligning to emissions accounting methodologies as well as aligning to the Mechanism production variable definitions (e.g. electricity is based on generation within industrial facilities rather than grid connected power).</p> <p>Woodside supports the concept of adjustment for methane intensity. However, when undertaking this adjustment, we encourage consideration of global target intensities and how this interacts with proposed decline rates.</p>
<p>Time period for selecting data.</p>	<p>Use two recent years data for each best practice facility.</p>	<p>Selection of at least two or three facilities (or 10% of Australian production) and two years of data is insufficient and risks selecting outlier facilities, or annual emissions that are not representative of global performance.</p> <p>Please see the above example of how the top two or three facilities may be outliers of global performance.</p>
<p>Number of facilities to use in the benchmark calculation.</p>	<p>Use a minimum of two facilities, and more if their combined annual production is less than 10 per cent of the annual production of Safeguard facilities. If there are at least five facilities in Australia that engage in production, a minimum of three facilities would be used.</p>	
<p>Adjusting for Australian conditions.</p>	<p>Adjust for geology and climate, but not the availability of skills or technology. Review if the facility is still best practice after adjustment.</p>	<p>Woodside supports the approach of recognising Australian conditions, including geology and climate, and encourages consideration of other aspects such as the significant distances to infrastructure/shore for prospective Australian oil and gas developments.</p>

Consultation topic	Details in Consultation Paper	Woodside response
		<p>Rather than adjusting to Australian conditions, Woodside suggests an alternative method that includes selecting facilities that are representative of both Australian conditions and top quartile (or similar) international performance.</p>
<p>Best practice benchmarks cannot be higher than domestic best practice.</p>	<p>It is proposed that best practice benchmarks cannot be less stringent than domestic best practice. This further ensures that benchmarks reflect Australian conditions and helps to manage issues with data availability.</p>	<p>Woodside supports the principle of ensuring consistency between international best practice benchmark settings and top performing Australian facilities.</p> <p>Woodside suggests this principle could be honoured by selecting facilities that are representative of both Australian conditions and top quartile (or similar) international performance.</p>
<p>The Department will calculate the domestic top 10 per cent best practice emissions intensity.</p>	<p>The Department will compare the domestic top 10 per cent best practice emissions intensity to the best practice benchmarks worked out by the consultant and select the lowest value.</p>	<p>Woodside encourages a review of the top performing Australian facilities emissions intensities to prevent non-representative or outlier facilities influencing policy settings. The risk of this is exacerbated with the use of top 10%, as proposed in draft guideline, as this may result in a very small number of facilities (or a single facility) being used to define best practice.</p> <p>For example, Woodside's not-normally manned Pluto A Platform was designed with limited offshore processing facilities installed resulting in emissions intensity performance significantly lower than the Australian industry average, represented by the default production variable for oil and gas extraction.</p> <p>If this facility was selected to represent domestic top 10 per cent best practice emissions intensity for oil and gas extraction, it is unlikely that this would be</p>

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		representative of the technology and design options available for future offshore development activities and risks setting onerous emission intensities based on an outlier facility.
<p>Timing - For priority production variables, likely to be needed to calculate 2023-24 baselines the Government will aim to legislate best practice benchmarks by end 2023. Further benchmarks will be developed in 2024 for new or amended production variables as needed.</p>	<p>The Department anticipates that priority production variables will include coal, electricity, lithium hydroxide, iron ore, run-of-mine metal ore, steel, processed natural gas, reservoir carbon dioxide from existing gas fields, and bulk freight road transport.</p>	<p>Priority production variables should be expanded to include extracted oil and gas, stabilised crude oil or condensate, and hydrogen to allow progression of significant Australian investment decisions that are under consideration.</p>

PRODUCTION VARIABLES UPDATE: CONSULTATION PAPER

Consultation topic	Details	Woodside response
Reservoir Carbon Dioxide Industry Default Production Variable		
Reservoir carbon dioxide from existing gas fields.	The default emissions intensity is 0.928 t CO ₂ -e per tonne of reservoir carbon dioxide.	<p>Woodside acknowledges the draft default emissions intensity of 0.928 t CO₂-e per tonne of reservoir carbon dioxide.</p> <p>However, in acknowledging this metric, we note that the default emissions intensity has been calculated based on a limited set of Australian facilities. It is also our understanding that applying a consistent methodology used to set other default emissions intensities against the full Australian reservoir CO₂ dataset, would result in a default intensity very close to 1.0.</p> <p>In setting the default emissions intensity we note that production variables should be defined in a way that is equitable and consistent across facilities and sectors, and not be artificially or unfairly calculated.</p>