Woodside Energy Ltd.
ACN 005 482 986
Mia Yellagonga
11 Mount Street
Perth WA 6000
Australia
T +61 8 9348 4000
F +61 8 9214 2777
www.woodside.com.au

5 October 2021

Attn: Safeguard and Industrial Policy Team
Department of Industry, Science, Energy and Resources
10 Binara Street
CANBERRA ACT 2600

Dear Sir or Madam

RE: DISCUSSION PAPER: KING REVIEW SAFEGUARD CREDITING MECHANISM

Woodside Energy Limited ('Woodside') welcomes the opportunity to comment on the Australian Government's Discussion Paper ('the Paper') regarding the proposed Safeguard Crediting Mechanism ('the Mechanism').

Introduction

Woodside is Australia's leading natural gas producer. We hold equity in operated and non-operated Australian oil and gas facilities, the emissions from which are regulated under the Safeguard Mechanism (SGM). In 2020, our gross equity Scope 1 and 2 emissions were 3,598kt CO_2-e and we have announced clear near- and medium-term targets to reduce these emissions by 15% (2025) and 30% (2030) on a net basis below the annual average (2016-20).

We have publicly committed to ensuring our own advocacy, and the advocacy of industry associations in which we are a member, is aligned with:

- Support for Paris Agreement goals and commitments and global net zero emissions by 2050.
- Support for appropriate protection to manage the social and economic costs of the transition.
- Support for lower-emissions technologies (LETs) and other pathways to reducing/offsetting emissions.

This submission is aligned with these principles.

Summary

We welcome initiatives by the Government that contribute to emissions reduction, and in particular welcomed the King Review's recommendation to introduce a 'crediting below baseline' scheme. Woodside supports the introduction of an economy wide carbon price, so we would prefer that the Mechanism be designed as a straightforward step towards such a price, by simply rewarding all abatement below the reference level.

However, we recognise that the Government's response to the King Review endorsed designing the scheme as "a low-emissions technology deployment incentive… [to] realise abatement opportunities that are not being accessed by the Emissions Reduction Fund." We have therefore structured this submission as a response to the design of the Mechanism for this purpose but have drawn attention to aspects that could allow its evolution towards a pricing scheme. Please refer to Attachment 1.

Yours faithfully

Tom Ridsdill-Smith
Senior Vice President Climate

Attachment 1: Woodside's Comments on the Australian Government's Discussion Paper regarding the proposed Safeguard Crediting Mechanism

1. Comments upon the design principles	
Design Principle	*Woodside comment*
1. Encourage the deployment of transformational low-emission technologies in Australian industry and other sectors covered by the Safeguard Mechanism (SGM).	We support this principle but prefer that the definition of eligible abatement is drawn widely to encourage all abatement below baseline.
2. Encourage SGM facilities to realise low-cost emissions reductions in a way that maintains or increases international competitiveness.	We support this principle.
3. Realise genuine abatement that provides value-for-money for abatement driven by Government.	We support this principle.
4. Have a simple design that builds on existing frameworks and minimises additional reporting.	We support this principle.
	We support an additional principle to ensure transparency and integrity in the Mechanism, including avoiding any double-counting of emissions reduction.

2. Comments on the pilot phase	
Consultation question	*Woodside comment*
The length and start date of a pilot phase.	Woodside supports the start date of 1 July 2022, especially if the scheme supports all abatement. However, if the scheme is limited to transformational technology application, it will be challenging to meet this timeframe, for example where engineering studies or synchronisation with facility maintenance shutdown cycles are required. For transformational technology only, up to 5 years may be needed to achieve actual abatement results to enable engineering, budgeting, and execution, although elements of the scheme such as the application process could be tested sooner.
How to ensure scheme continuity between the pilot phase and subsequent arrangements.	There would need to be grandfathering of pilot scheme provisions (including continuation of support for schemes agreed during the pilot but continuing beyond it) in the event the full scheme is amended.

Issues to consider when the pilot phase is being evaluated.	If the purpose of the Mechanism is to incentivise LET deployment, it should be measured against the amount of scalable and replicable LET that is proven (and therefore available to the wider economy), as well as the quantity of abatement that arises at the funded projects.

3. Setting the reference levels	
Consultation question	*Woodside comment*
Is a historical emissions intensity value an appropriate reference point for crediting emissions reductions?	In principle yes, because it will be important to reward real abatement and not support windfall gains. This is particularly important if the Mechanism is intended to develop into a broader baseline-and-credit scheme. However it is important to understand that a particular technology gain may be masked by the net effect of multiple changes across a facility. This should not be penalised under a LET mechanism, which rewards specific technology deployment irrespective of broader abatement outcomes at the facility. If historical values are used, there would need to be an applicable envelope (e.g., substantively the same operating conditions), outside of which the historical intensities should be reset. For example, a substantive change in a facility subsequent to the historical value years will impact the accuracy of the estimated emissions reductions from the project.
Should a historical emissions intensity value reflect a fixed period or the most recent period?	Proponents wishing to participate in the scheme should demonstrate why a particular period is representative. This will allow them to avoid case-by-case exceptions that could distort a one-size-fits-all period.
How should circumstances where a facility has experienced an outage or similar event that leads to its emissions intensity being artificially high be managed?	Proponents wishing to participate in the scheme should demonstrate why a particular period is representative. This will allow them to avoid case-by-case exceptions that could distort a one-size-fits-all period.
Should new facilities have access to the Safeguard Crediting Mechanism? If so, what is the best approach for setting new facility crediting reference levels? Should they be set at the emissions intensity of the industry average, the average of the top 30	As a pure LET mechanism, it would be better to exclude new facilities because best available technologies should already have been applied in order to meet regulatory approvals, and the Mechanism

or 50 per cent of existing facilities, or some other level?	could otherwise provide a perverse incentive to hold such technologies back. However, if the intent is to make the Mechanism easier to transition to a baseline and credit scheme, all facilities should be eligible. Benchmark emissions intensities will provide an appropriate reference point (Woodside recommends the median of the top 50%, i.e., top 25th percentile performance).
We invite views on [the adjustments to reference levels] approach, and how a materiality threshold could be defined in order to determine whether such an update to a facility's crediting threshold is needed.	We support the proposed approach. Adjustment triggers should also be set for significant expansions or reductions in output (in addition to the examples proposed in the paper).
The timeframe for an appropriate crediting period.	The length of the abatement period trades-off against the abatement price. Longer periods will incentivise more abatement at lower prices, which should the goal of scheme that might transition to baseline-and-credit. A LET mechanism should be resilient to shorter crediting periods, which will help to high-grade the most transformational opportunities.
Should crediting reference levels decline over time to reflect business as usual improvements, and how should a declining reference level be implemented?	No, reference levels in the Mechanism should not decline independently of any future change the SGM baseline, which are out of scope of the current discussion.
Should there be an adjustment to baselines for facilities that receive SMCs?	Not for facilities with default baselines. Default baselines should continue to be set in order to reflect industry's required contribution to national emissions reduction targets. For facilities with site-specific baselines, yes. Once a transformational LET project has been deployed (and partially funded through the Mechanism), the site-specific baseline should reduce. Government could consider only making the Mechanism available to facilities with default baselines, to incentivise the shift away from site-specific baselines.

How much of an adjustment should there be?	Site-specific baselines should be adjusted to match the quantum of the abatement funded by the Mechanism.
Any feedback on the proposal to adjust baselines for facilities whose emissions intensity is above the default (industry average) emissions intensity.	There is a case that facilities with site-specific baselines should be ineligible to participate in the Mechanism, to avoid this risk.
We invite views on whether SMC crediting should only be available to facilities that are not emitting above their baseline, and only those not on a Multi-Year Monitoring Programme (MYMP).	We would support the Mechanism being restricted to facilities which are below baseline, and not those subject to an MYMP. This is true to the principle of the proposal and reduces complexity but may be a minor barrier to uptake.

4. Delivering genuine abatement	
Consultation question	*Woodside comment*
Should there be a reduction in the number of SMCs issued for each tonne of calculated emissions reductions?	It would be simpler to manage uncertainty through a buffer applied to the historic reference level, and then apply a 1-for-1 credit for abatement, since avoided emissions have no risk of reversal.
What should the discount factor be?	It should be as low as possible, reflecting low uncertainty about historical emissions and zero risk of reversal.
Whether there should be a requirement for a minimum level of abatement.	No. If the intent of the Mechanism is to incentivise LET deployment, then there should not be a minimum level of abatement at a project level, because what matters is the ability to scale and replicate the technology elsewhere. Moreover, if the Mechanism is to be capable to transitioning to a baseline-and-credit system, the inclusion of abatement should be as broad as possible.
What should the minimum level of abatement be?	N/a
We invite views on the role of transformation statements, including what details and types of declarations should be required and how they could help to inform carbon markets.	In a LET mechanism these statements will be essential to ensuring the deployed technology can be transferred to others, and to demonstrate its 'transformative' characteristics. However, there is a risk that transformative statements may be perceived as additional red tape and add complexity. They would not be necessary in a scheme that incentivised all abatement below the reference line.

Whether SMCs should be time limited, and the parameters of any time limits.	We do not think that a case has been established for creating a new system of SMCs. A LET scheme could be underpinned by any existing unit of fungible value (cash or ACCUs), and a simple 'all abatement' scheme could be rewarded by ACCUs provided that risks of double-counting are addressed If a genuine market solution is desired, then unit holders should be able to have maximum flexibility and be driven by market factors as to when to sell.

5. Purchasing	
Consultation question	*Woodside comment*
What sort of principles should the Regulator have regard to when purchasing SMCs?	In a LET scheme, the Regulator should be concerned with scalability and replicability of the LET.
Should SMCs be purchased by the Regulator under forward contracts, and if so, what length of contract would be sensible?	Yes this should be possible, with the length and price being determined on a case-by-case basis to appropriately reward the risks taken in the investment.
What would the impact on the ACCU market be of allowing SMCs to be used for Safeguard compliance and how could any impacts be most effectively managed?	We do not think that a case has been established for creating a new system of SMCs (compared to using cash or ACCUs as the unit of value, provided that rules to prevent double-counting are clear). All other things being equal, the issue of either ACCUS or SMCs and allowing them to be used for compliance purposes will be identical (market moderation on ACCU prices based on principles of efficiency/lowest cost abatement). The only way to avoid this would be to prevent SMCs being used for compliance, but in this case the government would be the only buyer and the complexity of SMCs can be avoided by paying direct cash incentives. We understand that the case for SMCs rather than ACCUs is to exclude them from being used to make up underperformance in projects funded in the ERF. We do not accept this is necessary, provided the abatement under the Mechanism is valid and double-counting is avoided, it should be fully fungible with other parts of the ERF system.

We invite views on the role of SMCs in the voluntary market.	Potentially SMCs, could be included in Climate Active. It is not clear that this is administratively justified.