

16 March 2017

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Via email: info@esb.org.au

Submission to the Energy Security Board re: National Energy Guarantee Draft Design Consultation Paper

ConocoPhillips Australia (COPA) welcomes the opportunity to comment on the draft design consultation paper. Our submission addresses stakeholder consultation questions relevant to our operations, being Chapter 4 'Emissions Requirement: Commonwealth Government design elements'. Where indicated, ConocoPhillips also supports and endorses the principles raised in the submission of Australia Pacific LNG (APLNG) and the Australian Petroleum Production and Exploration Association (APPEA).

Overview

Headquartered in Houston, Texas, ConocoPhillips is the world's largest independent exploration and production company based on proved reserves and production of liquids and natural gas.

COPA is the largest joint venture owner and operator of the Bayu-Undan gas condensate field and world-class Darwin Liquefied Natural Gas ("Darwin LNG") project. COPA is also joint venture partner and downstream operator of the Australia Pacific LNG LNG Facility in Gladstone ('APLNG'), in addition to interests in other exploration and development projects located offshore Northern Territory and Western Australia.

General

COPA acknowledges the need for a national, integrated approach to climate change and energy policy. COPA supports sustainable, practical climate change solutions, and believes that effective climate change policy must recognise that climate change is a global issue which requires both national and global solutions. Australia has a role to play in reducing global emissions, and the domestic natural gas and LNG industries are long-term contributors in this effort.

As well as the broader impacts of natural gas in reducing GHG emissions, COPA is proud to be an industry-leader in emission abatement through our pioneering of the Savannah-Burning abatement methodology and implementation of the West Arnhem Land Fire Abatement (WALFA) project.

In addressing climate change considerations COPA supports the use of market-based mechanisms co-ordinated with energy policy to provide long-term certainty for investment decisions.

As a shareholder of APLNG, we support APLNG's submission, in particular their comment that "the NEG is intended to deliver reliable power with reduced emissions. It is not clear to APLNG how the NEG would also deliver on the affordability promise, particularly with new obligations imposed on

retailers. This is a significant market structural change in a short timeframe, and would jeopardise the standard nature of electricity contracts. APLNG believes that these material changes could increase electricity costs”.

We support a competitive and transparent market for electricity generation as part of a wider solution to electricity price management. We also welcome the opportunity to learn more about the proposed treatment of vertically integrated participants as part of the NEG.

Emission Targets (4.1-4.2)

Achieving Australia’s emission reduction efficiently is an economy-wide undertaking. As steward of the electricity sector, the largest emitter in the economy, the NEG has a critical role in driving these reductions; if not found here, they will need to be found in other sectors with higher marginal abatement costs, adding costs which will reduce the competitiveness of Australia’s trade exposed exporters.

Despite the criticality of the NEG targets to wider climate change policy levers, the consultation paper provides no analysis as to why the proportionate burden on the electricity sector is set at its current level.

In the electricity sector, there appears to be clear opportunities for affordable, lower-emission technologies to bring down the average intensity for emissions reduction, as well as a demand for investment in new generation plants.

In contrast, the LNG sector has sunk investment in infrastructure that is already world’s best practice in controllable CO2 emissions, such as those seen in Darwin LNG and APLNG; and further reductions will require purchase of offsets or retro-fitting solutions not yet commercially proven, adding significant costs and eroding competitiveness.

We recommend significant further consultation on the appropriate emission reduction target for the electricity sector following the design consultation phase.

Regarding timing and geographic neutrality, these design elements appear common sense to ensure consistency with broader international emission reduction commitments and to avoid the policy challenges of the current system caused by a national electricity market with state-based energy policies.

Treatment of EITI Activities (4.3)

COPA supports the recommendations proposed by APPEA on page 12 and 13 of their submission (attached).

COPA as shareholder of APLNG, notes that APLNG is an energy intensive and trade exposed business which consumes a large amount of electricity. With the current legislative drafting regarding the RET, APLNG is not eligible for EITE exemptions for LNG facilities. COPA supports APLNG requests that the Commonwealth review this discrepancy prior to making additional changes that further impacts APLNG’s business.

External Offsets (4.4)


Meeting Australia’s emissions targets will require significant abatement across the economy. COPA supports the Commonwealth Government’s in-principle support for allowing the use of high-quality international offsets to meet Australia’s emission reduction requirements.

However, in keeping with the 'whole of economy' view detailed above, in our view a sector's ability to use offsets (regardless of origin), should be assessed based on its access to existing low-cost emission-reductions opportunities through commercial technology solutions.

We would therefore recommend further consultation to determine appropriate guidelines for offset use in sectors (such as electricity) with existing economic emission-reduction opportunities available.

COPA appreciates the opportunity to provide our feedback into this draft consultation. Should you wish to discuss this submission further please contact Patrick Hastwell (08) 6363 2375 or patrick.hastwell@conocophillips.com.

Yours sincerely

A handwritten signature in black ink, appearing to be 'KE' followed by a long horizontal line.

Kayleen Ewin
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ConocoPhillips

