Policy Government and Public Affairs

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Climate Change Authority
(Submitted via email to: submissions@climatechangeauthority.gov.au)

**RE: Chevron Submission To The Climate Change Authority Review Of The National Greenhouse And Energy Reporting Legislation.**

Chevron Australia Pty Ltd ('Chevron') welcomes the opportunity to make a submission to the Climate Change Authority Review of the National Greenhouse and Energy Reporting legislation.

Balancing the government's commitment to reducing greenhouse gas emissions while maintaining economic growth is a complex undertaking. Chevron is committed to working with the Climate Change Authority as it considers the operation of a key component of Australia's climate change policy response.

**Executive Summary**

The Australian export LNG industry has delivered significant economic benefits to Australia and has the potential to significantly reduce global greenhouse gas emissions by displacing higher emissions fuels such as coal. To attract further additional investment in Australia, it is important that the Government's policy settings remain supportive, stable and predictable.

Energy, climate and economic policies are inextricably linked and must be designed and implemented holistically to ensure they are complementary. A robust, fit for purpose national greenhouse reporting scheme is essential to provide credible data upon which base these policies.

The Australian Government should continue to work with the States and Territories to ensure NGER fulfils its intent to be the single national scheme for reporting of greenhouse and energy data.

In order to minimise the regulatory burden on industry, only emissions and energy that are material should be required to be reported. The Department should be required to consult with industry and assess the materiality of an emissions source or if that data could be obtained more efficiency from some other source before inclusion in the Measurement Determination.

Government should either transparently demonstrate how reported energy data is being used to justify the cost on industry or radically simplify the energy reporting obligations.

Consideration should be given to providing the Clean Energy Regulator with the powers to make "rulings" so that it can provide clarity around the interpretation of reporting requirements.

Government should be mindful that both reporting under the National Greenhouse and Energy Reporting legislation and compliance under the Safeguard Mechanism impose significant costs on industry and these costs must be kept as low as practicable.

The provisions in the Safeguard Mechanism that reflect the natural attributes of the resource industry should be maintained and not phased out in 2024.

A range of mechanisms should be investigated to guarantee liquidity in the market for Australia Carbon Credit Units so as to prevent unrealistic price excursions should there be an increase in demand during various compliance periods.

Chevron wishes to thank the Authority for the opportunity to provide input to its review of the National Greenhouse and Energy Reporting legislation .

Should you have any questions regarding this submission, please contact John Torkington on (08) 9216 4025 or at john.torkington@chevron.com.

Yours faithfully,

**Peter Fairclough**
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## Chevron in Australia

Chevron Australia Pty Ltd (Chevron) has been active in the Australian upstream oil and gas industry for almost 60 years through our oil production operations on Barrow and Thevenard Islands, as a foundation participant in the North West Shelf Project and more recently as the operator of the Gorgon and Wheatstone Projects. Chevron is currently the largest investor in Australia's upstream oil and gas industry and is a major supplier of natural gas into the domestic market.

Chevron's development of the Gorgon and Wheatstone Projects, together with Chevron's other activities in Australia, will create enduring benefits that will help shape the Nation's economic future and spearhead Australia's growing importance as a global natural gas supplier.

The projects Chevron has invested in and its other activities in Australia have already delivered direct and indirect economic benefits to the Australian economy. Over the period 2009 to 2016, these include:

- almost 1000 contracts awarded to Australian companies and more than $60 billion committed to Australian goods and services to develop the Gorgon and Wheatstone Projects[1]
- almost 19,000 workers directly employed
- about $4.5 billion in taxes paid by Chevron Australia

[1] Value of work done to first quarter 2015.

- more than $1 billion invested in research and development in Australia
- more than $53 million invested into universities and research institutes to help build local academic excellence and research capability
- almost $300 million committed to community investments, including $250 million to critical and social infrastructure in Onslow associated with the Wheatstone Project
- nearly $1.6 billion spent on exploration activities in Australia between 2009 and 2014, resulting in more than 25 offshore discoveries

Compared to the use of Australian export steaming coal, electricity generated by using natural gas supplied from the Gorgon and Wheatstone projects has the potential to lower global greenhouse gas emissions by 60 to 70 million tonnes CO2e per year. It is hard to conceive any action the Australian Government can undertake that can deliver both the economic benefits and potential global emissions reductions of this scale other than promote Australian export LNG industry.

However, these investments cannot be taken for granted. Projects the size and scale of Gorgon and Wheatstone have long lifecycles. The Gorgon field was discovered in 1980, a final investment decision to develop the resource made in 2009 and full production capacity was not realised until the second half of 2017. Some 37 years after the initial resource discovery. It is expected Gorgon will be producing energy for the domestic and export markets for over 40 years. This highlights the importance of Australia's policy settings remaining supportive, stable and predictable to attract similar future investment.

### *On Climate Change Policy*

We believe climate polices should complement a broader vision as to where the Australian Government sees the domestic economy in the decades ahead. To attract and retain investment in Australia, it is important that the Government's policy settings remain supportive, stable and predictable.

As climate policy evolves in Australia the following represent important policy underpinnings:

- **Innovative energy projects are part of the solution**: Globally, the oil and gas industry has invested heavily in the development of innovative energy solutions geared to reduce greenhouse gas emissions. Australian LNG projects already incorporate numerous mitigation approaches and the Chevron-operated Gorgon Project is about to commission what we believe to be the world's largest GHG abatement project undertaken by industry.
- **LNG is a trade exposed industry**: We strongly encourage the government to take into account that certain sectors of the Australian economy including its LNG industry are heavily trade exposed. While it is appropriate these sectors share in the emissions reduction goal, this should be done via a marginal cost incentive and not through a cost impost not being imposed on the sectors international competitors.
- **Fair and balanced sectoral approach**: Should government continue to adopt differing policy responses across sectors of the Australian economy, it will need to carefully consider how to avoid any one sector or individual facility being asked to carry a disproportionate burden to another sector or facility.

- **Emissions units should be freely traded**: Provided greenhouse emissions units are credible and verifiable, we believe there should be no constraints placed on the trade in such units. A right to emit, or an accredited emissions reduction should be fully fungible. The trade in units across domestic sectoral schemes is one way to ensure the emissions reduction burden is carried equitably by each sector. Policymakers should not assume international units can provide a pathway for liable emitters in Australia to satisfy their scheme obligations until there is a functioning and liquid international market.
- **Safeguard Mechanism should avoid arbitrary reductions** in facility baselines given the disproportionate emissions reduction burden likely to be placed on those covered facilities and the potential to introduce unintended distortions to trade and investment flows into and out of Australia.
- **Continued research, innovation and application of technology are essential** to enable significant and cost-effective mitigations to climate change risks over the long term.

### *Chevron's investment in innovative energy technologies*

Over the past two decades, globally Chevron has invested in the development of a range of innovative energy technologies to understand the practical issues associated with transitioning the energy systems currently in use. These investments include:

- geothermal, until a few years ago Chevron was the world's largest producer of geothermal energy
- concentrating and thin film solar PV
- solar thermal
- biofuels for transport
- production of super clean diesel from stranded gas fields
- hydrogen as an alternative transport fuel
- fuel cell technologies for the highly efficient generation of electricity
- carbon capture and storage

While the results of these investments are proprietary, the general lessons learned is that the pathways to lower emissions energy systems are more complex and costly than anticipated. This is not to say these pathways should not be pursued, but rather policy makers must not underestimate the true delivered cost of these technologies. Further investment in research and development is required to further understand and reduce the cost of these new technologies.

### *Actions by Chevron to reduce emissions from our Australian facilities*

Proponents of new projects (and major expansions) in the energy sector have a strong incentive to maximize energy efficiency and hence reduce greenhouse gas emissions given competitive market pressures and the increasing value of the energy they produce.

The facilities Chevron is currently operating in Australia incorporate state-of-the-art technologies appropriate for the resource being developed and designed in the context of business processes requiring a price on emissions be considered. These include approaches such as:

- the use of subsea production technology
- the capture and use of waste heat to provide process heat requirements
- the use of boil of gas compressors to capture gas that would have been flared and redirect those gases back into the production process
- commitments to avoid routine flaring and venting of hydrocarbons other than required to maintain safe and efficient operations
- the use of activated-methyldiethanolamine for the removal of reservoir carbon dioxide
- dry compressor and hydrocarbon pump seals
- maximum practicable use of welded piping and the specification of high integrity valves to avoid fugitive emissions.

In addition, the Gorgon Project incorporates what we believe is the world's largest greenhouse gas abatement project undertaken by industry. The Gorgon Joint Venture has invested in excess of $2.5 billion in the Carbon Dioxide Injection Project. Once operational it will reduce the greenhouse gas emissions from the Gorgon Project by around 40 percent or between 3.4 and 4.0 million tonnes annually. Over the life of the project this is anticipated to equate to about 100 million tonnes of abatement.

## General Comments On The Review

Chevron Australia has been a supporter of a single national scheme for the reporting of greenhouse gas emissions and energy use since the inception of the *National Greenhouse and Energy Reporting Act 2007 (Commonwealth)* (NGER). While the scheme does impose an additional and at times significant regulatory impost on industry this must be weighed against the societal good arising from the transparent reporting of greenhouse and energy data and the strong preference for a single national scheme as opposed to a multiple and often poorly defined and uncoordinated reporting programs.

While it was always intended the data reported under NGER would underpin legislative schemes to regulate greenhouse gas emissions, recently the NGER has been amended to its purpose expanded to now cap the greenhouse gas emissions emitted by large facilities (Safeguard Mechanism). Its arguable such an important policy is deserving of being enacted through stand alone principle legislation rather than in a disallowable instrument.

Greenhouse gas emissions, energy consumption and energy production reporting under the NGER has been in operation for around ten years. It is appropriate that these aspects of the NGER be reviewed. However the Safeguard mechanism has only been in operation for around two years and has been reviewed as part of the Australian Governments 2017 Climate Policy review, is currently subject to a set of legislative amendments that will alter the operation of the Mechanism, is to be considered as part of this Climate Change Authorities review and the will no doubt be reviewed again as part of the Australian Government stated intent to review its climate policy settings in advance of the 2020 UNFCC Conference of the Parties. It's arguable such frequent reviews and changes to what is Australia's principle policy regulating emissions is not creating the stable investment environment desired by industry.

## The Reporting Scheme

A driver behind industry support for a national scheme for greenhouse and energy reporting was the agreement through the Council of Australia Government's that the States and Territories would look to the national scheme to supply all energy and greenhouse gas data reporting requirements. While generally this has worked well, there have been instances where some States have continued to require the reporting of greenhouse data leading to duplication of regulation[2].

The Clean Energy Regulator[3] is to be commended for its work with the States and Territories to improve their understanding and access to the data reported under the NGER system. The Australian Government should continue to work with the States and Territories to ensure NGER fulfils its intent to be the single national scheme for reporting of greenhouse and energy data.

The Climate Change Authority has asked if companies have reduced energy use and emissions in response to the reporting scheme. NGER has no doubt improved the quality and accuracy of greenhouse data available within corporations but within Chevron the existence of NGER has not impacted the way we manage emissions. We deploy operational metrics around our major emissions sources which are tracked daily, weekly and monthly to assist in managing emissions from these sources. NGER reports which are only compiled yearly do not provide data with the frequency required to effectively manage emissions.

We consider the separation of the reporting under the National Pollutant Inventory (NPI) and the NGER to be appropriate:

- emissions reported under NPI may have localised environmental impacts, and are generally managed/regulated at a facility or air shed level
- greenhouse gas emissions do not have localised environmental impacts and tend to be managed through national policies that ultimately impose a price (explicit or implicit) on those emissions.

### *Materiality*

Greenhouse reporting under the NGER system is predicated that once the reporting thresholds are exceeded, every tonne of greenhouse gas emissions must be reported irrespective of the materiality of the emissions, the inherent uncertainty in estimating those emissions and irrespective of whether Government can more efficiently obtain that data from other sources.

Examples of areas where upstream oil and gas companies are being required to provide data on non-material emissions sources include the reporting of:

- mud degassing from the drilling of oil and gas wells and the use of soda ash while drilling those wells. For Chevron's wells mud degassing generally accounts for around 10 to 20 tonnes CO2e, where as we estimate emissions from the use of soda ash at less than three tonnes CO2e. This compares with the overall greenhouse gas emissions from drilling an individual well are

[2] A number of project approvals granted over the last ten years under the *Environmental Protection Act 1986 (WA)* contain conditions requiring the reporting of greenhouse gas emissions
[3] Personal communication with the Clean Energy Regulator

which generally around 25 000 tonnes CO2e. The methods and factors for estimating mud gas degassing are highly uncertain as it is a complex emissions source to estimate

- SF6 emissions, for our Gorgon Operations facility SF6 related emissions are generally around 500 tonnes CO2e from a facility with scope one emissions in 2016-17 of 8.3 million of tonnes CO2e – the government holds data on the import, manufacture and creation of SF6 gases which could be used to determine the national inventory
- Combustion of lubricating oils and greases, for our Gorgon Operations facility the combustion of oils and greases represented around 55 tonnes CO2e from a facility with scope one emissions in 2016-17 of 8.3 million of tonnes CO2e

Similarly, to the experience of many data reporters, Chevron estimates around 80% of the NGER reporting effort is geared towards capturing the data necessary to report on these non-material emissions sources. It would appear more appropriate that this effort was redirected towards improving the estimation of the major emissions sources.

In recent years reporting thresholds have been introduced for a number of "non-material" emissions sources. The difficulty with this approach is a reporter often has to collect the raw data and undertake the required calculations to determine if they are below the reporting threshold. Consequently, the reporting burden is not reduced substantially.

A fit for purpose approach would be for the concept of materiality in reporting to be included in the NGER laws. The Department should then consult with stakeholders and consider if the reporting of an emissions source is going to materially impact on the level of emissions being reported. If an emissions source does not materially impact on the overall values being reported it should not be included in the NGER Measurement Determination.

### *Energy Reporting*

NGER also requires the estimation and reporting of energy production and consumption. The societal value of reporting energy data is unclear.

The Department of Environment and Energy frequently publish data on Australia's greenhouse gas emissions and there is a line of sight as to how greenhouse data provided under the NGER scheme is used in those publications. It's also clear the greenhouse gas data reported through NGER is used to underpin emissions reduction laws such as the Safeguard Mechanism.

The Department of Environment and Energy and the Clean Energy Regulator will often discuss how the energy data reported under NGER is used for a range of purposes within government. However, from the perspective of an NGER reporter there is no transparency between the energy data reported and how this data is used by government. This erodes industry support for reporting energy data with many in industry feeling data is being reported for little purpose other than just reporting. Government has to date failed to demonstrate how the cost of energy reporting being imposed on industry is justified by the public good provided by that data.

If government wishes to maintain industry support for the energy reporting component of NGER it must communicate how that data is used and justify the regulatory burden that this requirement places on Australian industry. A transparent understanding of this value proposition is currently

lacking. In the absence of a clear demonstration of the cost benefit associated with energy reporting, the energy reporting provisions in NGER should be radically simplified.

### *Coverage*

The Climate Change Authority has asked for stakeholder's views as to should agriculture emissions be included under the coverage of the NGER. The answer to this question is self-evident from the Climate Change Authorities own legislated principles. Excluding any particular sector from reporting simply based on the nature of that sector would appear to violate the principles of equity, public interest and the development of an effective global response to climate change

In recent years there has been a lot of discussion around the contribution of methane and nitrous oxide to the build-up of heat in the atmosphere. The agriculture sector is a significant source of these gases and improved reporting of emissions from this sector would appear to be in the national interest. The top down measurement technologies that have been used to verify the fugitive emissions from the oil and gas industry, could also be used to determine emissions factors from intensive agricultural practices such as feed lots and piggeries etc which may exceed the NGER reporting thresholds.

Consideration should be given to removing certain classes of greenhouse gases that do not materially impact the emissions reported by individual facilities and for which the Department of Environment and Energy has access to alternative data sources for estimating national emissions. The reporting of SF6 is an example where these emissions are often non material to the overall reported facility emissions and alternative data on the economy wide use of these gases is available to Government. The Climate Change Authority should consider if the reporting of gases such as SF6 from the coverage of NGER has a net positive benefit or if data for national reporting could be obtained from different sources.

### *Annual Updates to the Measurement Determination*

The annual process of updating the Measurement Determination could be improved with greater consultation between the Department of Environment and Energy and NGER reporters prior to the development of exposure draft amendments.

Historically, often the first opportunity for NGER reports to provide input to the annual update process was when provided with exposure draft amendments to the Measurement Determination.

Ideally, the annual consultation process should commence with engagement between the Department, Clean Energy Regulator and industry relevant NGER reporters, to consider the operation of the Measurement Determination and look for areas where reporting could be made simpler and clearer. The consultation should identify how to best to identify any gaps in the reporting requirements and consider how best to incorporate advances in measurement or estimation technologies. Only after alignment with industry is achieved through this consultation should the Department commence the preparation of draft amendments[4].

[4] In the second half of 2018 the Department of Environment and Energy did commence an engagement process with the upstream oil and gas industry similar to that outlined in this submission. This approach is greatly

Amendments to the Act, Regulations and Determination should not take effect until the start of the reporting year following the amendments being made.

### *Auditing*

Auditing is an essential component of any greenhouse reporting scheme and the use of both a voluntary and Regulator initiated audit process is appropriate.

Auditing is a costly exercise, in terms of the dollar costs of third party auditors and the resources required from NGER reporters. Our experience with Regulator initiated audits is that it occurred over a six months and the cost of internal resources was in excess of $100 000. There was limited flexibility with the timing of audit activities and the need to fit these activities around our operational priorities. The absence of materiality in the NGER laws impacts on the cost and complexity of audits with much effort in an audit directed towards small and non-material emissions sources.

When initiating these audits, the Clean Energy Regulator should have regard to the cost these audits impose NGER reporters. This could be reduced by clearly defining a narrower scope for the audit matched to a risk of non compliance. For example the Audit could only look at the emissions sources making up 75% of the facility emissions.

### *Clean Energy Regulator Rulings*

The laws around reporting greenhouse gas emissions, energy production and consumption are complex and despite the best intentions of Government, often marked by imperfect definitions and ambiguity.

At present there is no process outside the annual updates to the Measurement Determination to have areas of ambiguity or confusion resolved in the NGER system.

Providing the Clean Energy Regulator with the power to make "rulings" with respect to the interpretation of the NGER Regulations and Measurement Determination would established a mechanism to assist industry compliance. For example, the NGER Determination deals with oil and gas "exploration" and "production" with drilling activities listed under exploration. Its currently not clear if "production drilling" should be included under the exploration or production headings. A simple ruling from the Clean Energy Regulator could provide reporters with certainty as to how they should report drilling activity.

### *Emissions and Energy Reporting System*

The Emissions and Energy Reporting System (EERS) is fit for purpose with one exception. At present all data must be input into EERS manually and the database lacks the ability to output data in spreadsheet format. The need to manually input data is tedious and introduces the potential for errors. The inability to export data from EERS to a spreadsheet means it is difficult to run quick checks on the data to ensure the data in EERS is correct.

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welcomed by the industry but we are yet to see how this engagement process reflects in proposed amendments to the measurement determination.

The need for tools to import and export data quickly and efficiently to and from EERS has been discussed with the Clean Energy Regulator since EERS was first established but we are told not implemented due to limited resources. To assist NGER reporters ensure data in EERS is acute, simple to use data import and export tools should be developed.

### *Data Confidentiality*

When the NGER system was introduced in 2007 an underlying principle was that facility level data would not be published as it may disclose data on the operation of a facility. For example, where industries consume fossil fuels, greenhouse data may reveal fuel usage which in turn may reveal operating cost structures. The principle of not disclosing individual facility data was an important consideration in delivering industry support for the introduction of the NGER scheme.

This principle was eroded with introduction of the Safeguard Mechanism Rule where data on individual facilities covered by the Safeguard Mechanism are now published by the Clean Energy Regulator. When this issue was raised during consultation on the development of the Safeguard Mechanism the response from the Department was "a reporter can seek to have individual facility level data withheld from published under the provisions contained in Section 25 of the NGER Act".

Section 25 enables data to be withheld from publication if the data is either capable of revealing a trade secret or be of commercial value that would be destroyed of diminished in the information were disclosed. This limits the circumstances where the publication of data can be withheld and means that operating data from Australian facilities is available in the international market place when similar data from competing facilities is not. This creates and information asymmetry and places Australian facilities at a disadvantage in the highly competitive international market.

The criteria in Section 25 of the NGER Act enabling data to be withheld from publication should be broadened to include where comparable data is not available from competing facilities internationally.

## Safeguard Mechanism

The Safeguard Mechanism notionally applies to facilities across the mining, oil and gas, mineral processing. manufacturing, transport and electrical generation sectors of the Australian economy. It's been noted that this covers approximately 55% of Australia's emissions. The sectorial scheme cap applied to grid connected electricity generators effectively excludes grid connected electricity generation. Consequently, the Safeguard Mechanism only effectively covers around 25% of Australia's emissions. To ensure the emissions reduction burden is shared equitably across the economy, care is needed to ensure Australia's emissions reduction policy does not place a disproportionate burden on this share of the nation's emitters.

It has been Chevron's experience that the of presence of a legislated cap on the greenhouse gas emissions from our facilities is influencing the way we approach operating our facilities to ensure greenhouse gas emissions are managed appropriately.

While the business cost of these changed operating practices is currently low, deeper reductions in emissions caps can only be met at considerable costs. As Chevron operates in a highly trade exposed environment the imposition of any additional costs on our business can have an impact the trade

competitiveness of our operations. Should the Safeguard Mechanism be amended into the future, the focus should be on the creation of an incentive for emissions reductions without adding to the overall operating cost of trade exposed industries. This can be done through polices that create a "marginal cost incentive" for a facility operator to reduce its emissions as opposed to an effective tax impost on a facilities greenhouse gas emissions.

### *Proposed 2018 Amendments*

The Climate Change Authority discussion paper appears to have been written prior to the release of the 2018 exposure draft amendments to the Safeguard Mechanism. As such several issues in the discussion paper may no longer be relevant. For example, the alternative compliance option of using an "emissions intensity baseline variation".

The proposed amendments introduce the concept of default production variables and emissions intensities. While this appears an elegant approach and may be relatively easy to implement for industries with simple homogeneous production processes, it will be more complex for industries which produce a range of outputs from a variety and varying inputs. Preliminary discussions with the Department of Environment and Energy suggest that developing these default factors for Australia's export LNG industry will be complex and is likely to advantage some facilities over others. Government will need to ensure that industries for which the proposed use of default factors are not easily determined or applied are not placed at a competitive disadvantage.

### *Transaction Costs*

In addition to costs that may arise should a facility incur an emissions shortfall, the Safeguard Mechanism can impose significant transaction costs on covered facilities. Experience with preparing an application for a Calculated Emissions Baseline suggest that each application can cost several hundred thousand dollars given the significant Internal and external (NGER Audit costs) resources required.

The proposal to introduce default production variables and emissions intensities provides a mechanism that avoids these transaction costs, but as these may be unworkable for some facilities, they may still be faced with the significant transaction costs of obtaining calculated baselines. An alternative approach may be to allow reported baselines but using a more recent data than is currently allowed.

### *Coverage*

The Safeguard Mechanism genuinely covers around 25% of Australia's emissions. Honouring the Climate Change Authority's principles around economic efficiency, environmental effectiveness and equity, care will be required to ensure the sectors responsible for only one quarter of Australia's emissions are not asked to carry a disproportionate share of the effort to reduce Australia's emissions.

While outside the scope of this review, Government needs to ensure the emitters responsible for the 45% of Australia's emissions not covered by the Safeguard Mechanism or the Renewable Energy Target/National Energy Guarantee also contribute to the national greenhouse gas emissions reduction

effort. To date there has been very little progress on implementing the emissions reduction policies and programs applicable to these non-covered sectors.

The Climate Change Authority has noted that an option would be to reduce the emissions threshold at which facilities become covered under the Safeguard Mechanism. As noted by the Climate Change Authority in its discussion paper, reducing the threshold to match the reporting threshold at which facilities are required to report emissions under the NGER would increase the greenhouse gas emissions effectively covered by the Safeguard Mechanism from around 25% to around 35%. This would increase the number of companies having to comply with the Safeguard Mechanism from less than 200 to around 800, exposing around 600 Australian companies to the additional transaction costs associated with the Safeguard Mechanism. These transaction costs are significant and must be considered in deciding to lower the threshold at which facilities are covered by the Safeguard Mechanism.

### *Unique Resource Industry Issues*

Any scheme that establishes an emissions cap or emissions intensity cap on the emissions from individual facilities will place the resource industry at a disadvantage relative to other industry sectors. This is despite the resource industry providing a fundamental underpinning to Australia's economic prosperity.

A unique attribute of the resource industry is that as the resource being developed is depleted, additional energy/emission are required to maintain production capacity. For the oil and gas sector this can involve additional pumping, water separation and handling as a field depletes or for gas field developments, additional compression as the pressure in the gas field lowers.

The resource industries continue drive for energy efficiency improvements are rarely enough to compensate for this erosion in business inputs resulting in an increase in greenhouse gas emissions over time. Other economic sectors such as manufacturing, transport, electrical power generation or agriculture do not generally experience the same deterioration in their business inputs and increase in greenhouse gas emissions.

This attribute of the resource industry was acknowledged in the initial design of the Safeguard Mechanism with the ability to obtain a Calculated Emissions Baseline using the 'natural resource variability criteria". While the inclusion of these provisions was welcomed by the resource industry, the industry was at a loss to understand why the ability to utilize these provisions cease in 2024. It's not as if the important attributes that make up the resource industry suddenly changes in 2024.

Consideration to the future design and operation of the Safeguard Mechanism needs to ensure the Australian resource industry is not placed at a disadvantage simply because of the inherent attributes of the industry.

### *Compliance liquidity*

A fundamental weakness in the design of the Safeguard Mechanism is that it relies solely upon the surrender of Australian Carbon Credit Units (ACCUs) to meet any excessive emissions situation. While flexible compliance options assist, the scheme remains exposed to the almost total lack of liquidity in

the market for the supply of ACCUs. At present it would appear a short-term requirement for ACCUs can be met by offset providers re-ordering there offtake schedules under Emissions Reduction Fund contracts with the Australian Government. Going forward this is unlikely to be sufficient for meeting future peak demands for ACCUs such that liable emitters can ensure net emissions from their facilities remain below each facilities emissions baseline.

This design flaw can be addressed in several ways:

- similar to most similar schemes, introducing a safety valve mechanism to contain excessive price movements in the ACCU market
- broadening the range of emissions units that can be surrendered, for example offsets could be generated form the electricity sector if the cost of abatement in that sector is low as it is often reported
- the Clean Energy Regulator be given the resources and powers to establish a strategic reserve to purchase and hold ACCU's which it can then sell back to the market should market liquidly become an issue
- If ACCUs are not able to be "reasonably sourced" prior to the compliance date, empowering the Clean Energy Regulator to be able to enter into a longer-term delivery schedule for the surrender of ACCCUs would then enable the liable emitter to contract for the supply over a period of years.

It is important that a run on ACCUs does not result in the price of these units becoming cost prohibitive.

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