

Santos Ltd
ABN 80 007 550 923
Santos Centre
60 Flinders Street
Adelaide SA 5000
GPO Box 2455 Adelaide SA 5001
Telephone: 8116 5374
Facsimile: 8116 5518



16 November 2012

Renewable Energy Target Review
Climate Change Authority
GPO Box 1944
MELBOURNE VIC 3001

By email to enquiries@climatechangeauthority.gov.au

Santos Submission on Renewable Energy Target Review Discussion Paper

Santos welcomes the opportunity to provide comment on the Renewable Energy Target (**RET**) Discussion Paper released on 26 October 2012 by the Climate Change Authority.

Introduction

Santos is a major Australian-based oil and gas exploration and production company that was established in South Australia in 1954 and now operates internationally. Santos has exploration interests or production operations in every mainland Australian state and the Northern Territory as well as in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh and Central Asia.

Santos has been providing Australia with natural gas for more than 40 years. Santos has a long and reliable track record of safe, sustainable operations, and has a demonstrated commitment to transparency, accountability and environmental excellence.

Santos is a member of the Australian Petroleum Production & Exploration Association (**APPEA**) and the Australian Industry Greenhouse Network (**AIGN**). Santos has read the submissions in relation to the RET review that were made by APPEA and AIGN (both dated 14 November 2012), and generally endorses the comments set out in those submissions.

Santos submits the following specific comments in relation to:

- 1) The exemption for Self-Generators; and
- 2) The grant of Partial Exemption Certificates to Australian LNG exporters.

Exemption for Self-Generators

Recommendation 20 set out in the discussion paper is that “[t]he preliminary view of the Authority is that there is no strong case for the exemption from liability under the Renewable Energy Target for self-generation, and that the exemption should be removed for new self-generation (but retained for existing self-generators)”.

Santos does not support the Authority’s preliminary view or the recommendation that the exemption be removed for new self-generation.

As noted in APPEA's submission (and also in APPEA's submission in response to the Issues Paper earlier this year), the policy rationale for exemption of self-generators has been reflected by the RET programme since its inception and is an established principle that has been subject to repeated review and re-endorsement. There is no basis for abandoning it at the present time.

Self-generation is used by the natural gas industry, including the LNG industry, to provide power to remote facilities around Australia, in most cases where access to the grid is not available. Imposition of RET liability on these facilities will add even more to the already high costs of operation of Australian energy facilities.

The Honorable Minister Ferguson commented as recently as earlier this month, while launching the Commonwealth Government's Energy White Paper, that in order to secure the development of \$230 billion of energy investment projects that are currently proposed, "... we must reduce the costs of production in Australia".

Withholding the self-generator exemption for new projects will be inconsistent with the intent of Government to ensure continued investment in the infrastructure necessary to meet Australia's future energy needs.

It should also be recognised that the greenhouse gas emissions associated with use of natural gas for remote power generation are significantly lower than the average emissions associated with grid-based power supply and as such these self-generators are already contributing to the overall reduction in greenhouse gas emissions from power generation in Australia (consistent with the stated aims of the RET scheme). Additionally, use of self-generation has the benefits of not adding to network infrastructure costs and mitigating potential transmission losses.

In the context of remote sites, it is important to note that incentive to reduce emissions associated with power generation is provided by the Government's carbon pricing mechanism. Imposition of REC requirements on operators of those sites provides no additional environmental benefit and as such the removal of the RET exemption for self-generators would not be complementary to the Clean Energy Future regime.

Further, it should be recognised that costs incurred in purchasing Renewable Energy Certificates (were the self-generation exemption not to apply) are likely to be at the expense of investment in opportunities such as energy efficiency that might otherwise more efficiently provide for emissions abatement.

For instance, the REC liability for a 30MW gas-fuelled self-generation facility would be in the order of \$4 million per annum (not including administration costs). Given that greenhouse gas abatement through wind power costs more than \$55 per tonne of CO₂-e and abatement through energy efficiency can often be achieved for less than \$20 per tonne (McKinsey, 2009), imposition of REC obligations in relation to such a site would not be an environmentally or economically efficient way to reduce the overall emissions intensity of Australia's electricity generation.

In light of this position and the clear policy intent of the creators of the RET scheme, any limitation imposed on the scope of the self-generation exemption would be inappropriate, uneconomical and inefficient. Santos strongly recommends that the exemption continue to be applied for existing self-generation facilities and also continue to apply to new projects.

Partial Exemption Certificates for LNG exporters

Recommendation 17 set out in the discussion paper is that "[t]he preliminary view of the Authority is that the level of the emissions-intensive, trade-exposed exemption under the Renewable Energy Target should be considered by the Productivity Commission as part of its broader review of the carbon pricing mechanism Jobs and Competitiveness Program in 2014-15".

Santos submits that immediate changes to Part 38 of the Renewable Energy (Electricity) Regulations 2001 are necessary in order to ensure competitive neutrality for LNG exporters.

The definition of LNG production in section 710 of the Renewable Energy (Electricity) Regulations 2001 (used to determine the amount of the partial exemption to be granted) should be amended to be consistent with the definition of LNG Project in the Clean Energy Regulations 2011 (inserted by the Clean Energy Amendment Regulation 2012 (No. 6), made on 28 September 2012).

The definition of LNG Project in the Clean Energy Regulations includes what are generally referred to as “upstream operations” associated with LNG production, being the extraction of the natural gas from a geological formation and the transportation and handling of the gas between the extraction point and the liquefaction plant.

Section 6.4.1 of the Discussion Paper correctly highlights that the RET exemption is designed to focus on electricity use, as opposed to emissions associated with an activity. Upstream operations associated with LNG production can be electricity intensive as a result of the compression required to extract and transport the natural gas prior to liquefaction.

Given that Australia’s LNG exporters are amongst the most trade-exposed of all Australian exporters, it is critical that the calculation of the partial exemption adequately take into account electricity usage both within the liquefaction plant as well as in the upstream operations that are necessary to feed the liquefaction plant. Amendment of section 710 of the Renewable Energy (Electricity) Regulations 2001 to mirror the definition of LNG Project in the Clean Energy Regulations 2011 will address this gap in the current regime.

In association with the amendment to the definition of production of liquefied natural gas, the electricity baseline specified in section 712 of the Renewable Energy (Electricity) Regulations 2001 requires revision so that it reflects the electricity usage of the operations covered by the new definition.

Future reviews

Santos would welcome the opportunity to consider and comment on any future reviews of the RET scheme, particularly in relation to its treatment of LNG producers.

If you require any further clarification of Santos’ comments in respect of the discussion paper, please do not hesitate to contact the undersigned on (08) 8116 5374 or via email at susie.smith@santos.com.

Yours sincerely

Susie Smith
General Manager, Strategy, Planning and Carbon