



INPEX Operations Australia Pty Ltd
ACN 150 217 262

22/100 St Georges Terrace Perth
Western Australia 6000

Tel +61 8 6213 6000

INPEX.com.au

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Safeguard Mechanism Taskforce
Department of Climate Change, Energy, the Environment and Water
GPO Box 787
CANBERRA ACT 2601

RE: Consultation on draft legislation

INPEX welcomes the opportunity to engage with the Department of Climate Change, Energy, the Environment and Water (the Department) and provide comment in response to the draft Safeguard Mechanism Reforms (Crediting) Amendment Bill 2022 (the draft Bill) and the draft Carbon Credits (Carbon Farming Initiative) Amendment (Safeguard Facility Eligibility Requirements) Rules 2022 (the draft Rules).

INPEX has previously provided a submission (September 2022 submission) to the Department's Safeguard Mechanism Reforms – August 2022 Consultation Paper and values the Department's continued consultative efforts.

INPEX recognises the global challenge of climate change and supports Australia's updated commitments and intentions made in June 2022 under the Paris Agreement.

In January 2021, INPEX released its "Business Development Strategy", which updated INPEX CORPORATION's climate change response goals to move towards a net zero carbon society. INPEX committed to net zero carbon emissions in its operations by 2050, with an interim target of 30% reduction in scope one and two net carbon intensity over 2019 levels by 2030. In February 2022, INPEX released the "INPEX Vision@2022" which outlines how these ambitious targets will be achieved. In the short term, priority is given to looking for opportunities to directly reduce greenhouse gas emissions for our existing operations such as Ichthys LNG.

Carbon capture and storage (CCS) provides a highly effective means of reducing emissions from LNG production and INPEX is actively pursuing this as critical part of its decarbonisation strategy.

The Commonwealth Government recently awarded a greenhouse gas storage assessment permit to INPEX with joint venture partners TotalEnergies CCS Australia and Woodside Energy¹ which will establish the opportunity for significant emissions reductions via the development of a world-class carbon storage project offshore,

¹ See INPEX Press Release - [INPEX-led Bonaparte CCS Assessment Joint Venture awarded acreage offshore Northern Territory in Australia | INPEX](#)

northern Australia by 2030. The proposed Bonaparte CCS Assessment project is more than simply a means to decarbonise the existing INPEX-operated Ichthys LNG. Rather, it is also a step toward a world-scale CO₂ storage operation that would not only underpin the expansion plans for Ichthys LNG but also support the development of the 1500-hectare Middle Arm Sustainable Development Precinct and the Northern Territory Low Emissions Carbon Capture Utilisation and Storage Hub. The hub concept offers the potential to facilitate carbon reduction for third party operations, and to underpin the development of new energy such as hydrogen.

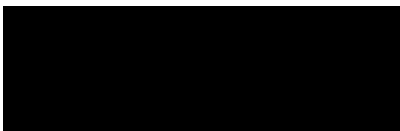
In addition to CCS, INPEX will seek to decarbonise Ichthys production through the staged introduction of firm renewables at its Darwin operations.

INPEX is a member of the Australian Petroleum Production and Exploration Association (APPEA), the peak national body representing the upstream oil and gas exploration and production industry. INPEX has reviewed APPEA's submission and supports the focus of this submission and the positions held therein.

Considering the relatively high-level nature of the draft amendments to primary legislation and the consequentially increased criticality of the design of subordinate legislation, INPEX urges the Department to continue its consultative approach, ensure that its process is not rushed, and proceed with careful consideration to achieve appropriate policy design that aligns with the policy principles put forward in the previous round of consultation.

INPEX thanks the Department for the opportunity to make this submission and looks forward to opportunities to further discuss specific proposed amendments.

Yours sincerely,



Bill Townsend

Vice President Corporate

The following section provides comments on specific aspects of the proposed amendments to legislation and offers additional commentary to inform the design of subordinate legislation.

Schedule 1 – Safeguard Mechanism Credit Units

As noted in its September 2022 submission INPEX welcomes the development of a below-baseline crediting system as an additional flexible compliance mechanism.

INPEX welcomes the specification in the draft Bill that Safeguard Mechanism Credits (SMCs) can be used to reduce the net emissions of Safeguard facilities and notes that Schedule 1 contains provisions to enable the issuance and purchase of SMCs and that these amendments are intended to provide that the administrative requirements of SMCs are consistent with those for Australian Carbon Credit Units (ACCUs).

INPEX notes that the draft Bill provides for the Safeguard rules to provide limits on the use of SMCs. As put forward in its September 2022 submission, INPEX would urge the Department to design the forthcoming amendments to the Safeguard rules to ensure that such limits do not undermine the intended incentives provided by below-baseline crediting for investment in abatement. Arbitrary short-cycle vintaging of SMCs or the inability to bank SMCs beyond the proposed 'phase 2' (2030) would weaken the incentive for early-movement to invest in material decarbonisation projects given that such limits would:

1. Preclude the longer-term banking of SMCs generated from such projects to a future time where (given a declining baseline framework) compliance requirements would be significantly more onerous
2. Create price cycling that may distort investment decision making in line with this cycling

INPEX welcomes measures that ensure that the Safeguard Mechanism and SMCs have a high level of integrity and notes that the draft Bill provides for the Safeguard rules to require audits in relation to crediting or regarding NGER reports. Such rules should where at all possible be complementary to the current audit requirements for covered facilities under the NGER Act to minimise any additional compliance burden.

INPEX notes that the draft Bill provides for the reservation of a percentage of all SMCs issued for direct provision to emissions-intensive trade-exposed facilities (EITEs) as a part of potential assistance measures for designated entities. Whilst INPEX welcomes the tailored treatment of EITEs, INPEX considers the direct provision of SMCs to EITEs would undermine the individual efforts of non-EITE facilities in reducing their emissions. This assistance measure would therefore not be INPEX's preferred option.

Schedule 2 — Australian National Registry of Emissions Units

INPEX notes that the proposed amendments in Schedule 2 are intended to allow for SMCs to be included in ANREU (Australian National Registry of Emissions) and for ownership and transfer arrangements of SMCs to be equivalent to those for existing unit types. The associated amendments appear appropriate for this intent.

INPEX supports measures to promote the transparency of both the ACCU market and the future SMC market. As suggested in INPEX's September 2022 submission, transparency of trading volumes and prices will be required for informed functioning of these markets and additionally important to support business decision making and forecasting.

The publication however of the unit holding information of each Registry account is not necessary to the function of carbon markets and such data should not be made available publicly given the potential commercial sensitivity of such data.

INPEX notes that the recommendation from the Climate Change Authority² is simply that the "*Regulator continue to pursue opportunities to increase information available about the market for Australian Carbon Credit Units*" and does not specifically call for data on unit holdings in registry accounts.

INPEX considers that a more appropriate approach to increase the availability of market data (in addition to the availability of trading volumes and prices) would be to routinely publish aggregated market balance data similar to what is already made available by the Regulator³ for ACCUs.

Schedule 3 — Clean Energy Regulator

INPEX notes that Schedule 3 contains amendments to the CER Act and amendments to the Clean Energy (Consequential Amendments) Act 2011 and the NGER Act intended to implement Recommendation 14 of the Climate Change Authority's 2018 Review of the National Greenhouse and Energy Reporting Act. The associated amendments appear appropriate for this intent.

² See R.17 within the REVIEW OF THE NATIONAL GREENHOUSE AND ENERGY REPORTING LEGISLATION (2018)

³ See table providing ACCU market balance as at 30 September 2019 [Australian carbon credit unit supply \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au)

Schedule 4 — Other Amendments

Amendment to Carbon Credits (Carbon Farming Initiative) Amendment (Safeguard Facility Eligibility Requirements) Rules 2022

INPEX supports the Department's efforts to ensure the integrity of ACCUs and the integrity of the framework for issuing ACCUs. As put forward in detail within INPEX's September 2022 submission, INPEX does not consider that the integrity of the framework for issuing ACCUs would be eroded if registration of new ERF projects that reduced the emissions of covered facilities was allowed to continue post Safeguard reform, and more specifically post the introduction of declining baselines.

The prevention of future ERF projects that provide abatement of emissions at covered facilities from being declared eligible offsets projects will remove existing enablers on which currently planned projects have been based and decrease the incentive to invest in other material future emissions reductions projects.

Given that key aspects of Safeguard Mechanism Reform are yet to be finalised, the changes proposed in Schedule 4 of the draft Bill and the draft Rule will create significant uncertainty for current, planned, and future emissions reductions projects significantly impeding business decision making.

If the option to register new ERF projects and deemed surrender provisions are removed, then two critical aspects in the design of related legislation must be considered for any incentive for facilities to reduce actual emissions below baseline to be retained:

1. The inter-temporal flexibility afforded by SMCs vs. ACCUs
 - INPEX considers that SMCs and ACCUs should have the same flexibility with regards to the ability to hold (bank) these units for future use. INPEX acknowledges that vintaging may be required to address a period at the commencement of reform where a certain amount of headroom could still exist, however would strongly suggest that vintaging not be applied to SMCs once headroom has been removed.
2. The potential for reduction of facility baseline as the result of the implementation of an emissions reductions project
 - Both the definition of production variables (and emissions intensities) and the mechanism by which baselines are reduced should be designed in such a way as to ensure that the emissions reductions achieved through the implementation of an emissions reduction project do not result in a corresponding reduction in the capacity for SMC generation.
 - If, for example, baseline decline is achieved through the periodic recalculation of baselines using updated default emissions intensities, then a facility which has undertaken a CCS project would lose baseline relative to the capture rate of the project. As suggested in its September 2022 submission INPEX considers that the reforms could address this by utilising a decline mechanism that imposes an annual percentage derating of a facility's emissions intensities from the relevant value at the commencement of reform.