



Senate Standing Committee
on Economics inquiry into the exposure drafts
of the legislation to implement the
Carbon Pollution Reduction Scheme

CONOCOPHILLIPS SUBMISSION
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SUBMISSION ON THE CARBON POLLUTION REDUCTION SCHEME DRAFT LEGISLATION TO THE SENATE STANDING COMMITTEE ON ECONOMICS

ConocoPhillips operates the LNG Plant in Darwin, Northern Territory. This Plant is one of only two such facilities in Australia, with the other being the North West Shelf in Western Australia's Pilbara region. As an Operator, ConocoPhillips welcomes the opportunity to submit comments on the Government's Carbon Pollution Reduction Scheme, including Draft Legislation released on 10th March 2009.

EXECUTIVE SUMMARY

ConocoPhillips strongly supports the various submissions made by the Australian Petroleum and Production Association (APPEA), both in so far as the APPEA submissions support aspects of the Green Paper, White Paper and Draft Legislation and also in relation to the concerns raised about the potential detrimental impact of the scheme on the Australian Liquefied Natural Gas (LNG) industry.

Burdening the Australian LNG industry with additional costs that are not similarly placed on our international competitors may well have an adverse impact on both existing LNG operations, and the Industry's opportunity to invest in further LNG operations in Australia. We are concerned that the result will be constraints on our LNG production, both present and future, and the likelihood that the customers will look to sources of LNG from other countries, or else turn to cheaper, but less cleaner burning fuels, such as coal, to meet their energy requirements. In order to deliver a specified quantum of electrical energy from coal typically results in a multiple of the emissions over an LNG equivalent supply chain. Policies that thus restrict or limit present and potential future LNG production may hence have the unintended consequence of increasing global emissions.

Overall, ConocoPhillips applauds the aspirations of the Carbon Pollution Reduction Scheme but believes that any action must:

- Provide long term certainty for investment decisions
- Encourage development/deployment of innovative technology to mitigate emissions
- Avoid placing a disproportionate burden on any one sector
- Ensure early actions are not disadvantaged, and
- Avoid undue harm to the economy.

Within that context we provide the following key comments on the Draft Legislation:

- **Timeline** - It is imperative that the design of any scheme has been properly structured, with appropriate time being allowed for full and thorough examination of the entire scheme rather than meeting a predetermined schedule.
- **Regulations** - The Draft Legislation defers many key aspects to Regulations. We understand that such Regulations will be published after the key legislation goes to Parliament, thus making it impossible to consider and comment on the package as a whole. A further aspect making it difficult to comment on the whole package is the ongoing work on definitions, for example the definition applicable to the "LNG production" activity has not been finalised.
- **WAFMA** – The White Paper defers any discussion about savannah burning. ConocoPhillips (through Darwin LNG) and the Northern Territory Government already have an agreement in place (WAFMA) pursuant to which such a scheme is in operation (CO₂-e savings in 2007 of 180,000 tonnes). The CPRS must allow such savings to be

credited. This position would appear to be consistent with the Government's announcement on 20 March 2008 that \$10 million will be invested to support "carbon market opportunities arising from traditional fire management in Northern Australia".

- **JPDA/Sunrise** – Implications of the legislation extending to JPDA and Sunrise Project must be clearly understood, including potential costs borne by the Timor-Leste Government as a result of the scheme.
- **Climate Change Action Fund** – There is currently little information available to describe how the CCAF will work and ConocoPhillips encourages all concerned to make this available soonest so we can see the whole picture of the proposed CPRS.

INTRODUCTION

ConocoPhillips Australia is an oil and gas exploration and production company which holds a significant acreage position in the Timor Sea Joint Petroleum Development Area (JPDA) between Timor-Leste and Northern Australia. This is the site of the company's Bayu-Undan Field which is in production, and which is bringing significant income and jobs to Australia and East Timor. The gas from the Bayu-Undan Field is piped 502 kms from the offshore production facilities to the LNG Facility located at Wickham Point, Darwin. The company's other operations in Australia are located offshore Western Australia and offshore and onshore Northern Territory and significant interests in Queensland's coal seam gas. Over 450 employees work through business centres in Perth, Western Australia; Darwin, Northern Territory; Dili, Timor-Leste; and Brisbane, Queensland.

ConocoPhillips Australasia is a subsidiary of ConocoPhillips, an international integrated energy company, headquartered in Houston, Texas. ConocoPhillips operates in nearly 40 countries, has approximately 33,000 employees worldwide and assets of US\$143 billion.

CONOCOPHILLIPS WORLDWIDE

It is important to note that in making this submission ConocoPhillips, as a world-wide company, recognises and takes its responsibilities to the societies in which we operate, and to the environment, very seriously.

The basic premise of our concern with the Australian Government's Carbon Pollution Reduction Scheme in so far as it relates to LNG is reflected in the principles set out in our Climate Change Position – a copy of which was attached to our submission on the Carbon Pollution Reduction Scheme Green Paper (refer <http://www.climatechange.gov.au/greenpaper/consultation/pubs/0422-conocophillips.pdf>).

ConocoPhillips is also a member of the United States Climate Action Partnership (USCAP), details of which can be found at <http://www.us-cap.org/>. This is a group of businesses and leading environmental organisations that have come together to call on the US Federal Government to quickly enact strong national legislation to require significant reductions of greenhouse gas emissions to underscore the urgent need for a policy framework on climate change.

USCAP has issued a landmark set of principles and recommendations as follows:

- Account for the global dimensions of climate change;
- Create incentives for technology innovation;
- Be environmentally effective;
- Create economic opportunity and advantage;
- Be fair to sectors disproportionately impacted; and
- Reward early action.

DARWIN LNG

ConocoPhillips is the operator and majority interest owner of the Darwin LNG facility located at Wickham Point, Darwin. Darwin LNG and the North West Shelf LNG facility are the only two operating LNG export facilities in Australia. Darwin LNG was completed and began full operation in 2006. The Darwin LNG facility currently produces approximately 3.5 million tonnes of LNG per year, which is subject to an LNG Purchase and Sales Agreement to Tokyo Electric and Tokyo Gas in Japan for an initial period of 17 years. Other equity owners of the Darwin LNG plant (held through various affiliated entities) are Eni, Santos, INPEX, and Tokyo Electric and Tokyo Gas. ConocoPhillips has plans to expand its LNG facilities in Darwin and the current site at Wickham Point has environmental approval for up to 10 million tonnes per annum.

INNOVATIVE TECHNOLOGY

The Darwin LNG plant uses the ConocoPhillips Optimised Cascade^(R) Process as the basis for its LNG liquefaction technology. It was first used in 1969 in ConocoPhillips' Kenai LNG plant in Alaska and since then has been licensed by owners of additional trains including Atlantic LNG, Egyptian LNG, Equatorial Guinea LNG and Angola LNG.

In the design and construction of the Darwin LNG plant (which commenced construction in 2003), ConocoPhillips took the opportunity to incorporate the best available emission reduction technology. Innovative solutions for optimising environmental outcomes were developed with the result that Darwin LNG includes:

- The use of high efficiency, low emission, aero-derivative gas turbines for refrigerant drivers. It should be noted that the Darwin LNG plant is the first to use these turbines in this application. Improved thermal efficiency reduces fuel requirements that result in a reduction of greenhouse gas emissions (3.7% as compared to the original design case for the project).
- The installation of waste heat recovery units on the gas turbine stacks, which has minimised the usage of a dedicated boiler for plant heating requirements and resulted in a greenhouse gas reduction of 9.3%.
- Vapour recovery during LNG ship loading has reduced emissions associated with flaring this stream, resulting in a reduction in greenhouse gas emissions of 4.4%

Collectively, these technologies reduce emissions at Darwin LNG in the order of 20% compared with what could have been built at the time.

ConocoPhillips is maximising ongoing opportunities to minimise our venting, such as the arrangement with BOC to establish a helium plant (currently in construction) alongside our LNG facility to utilise the vent stream from our nitrogen rejection unit as feedstock for helium.

These innovations and technology improvements were undertaken at considerable expense. However, the Carbon Pollution Reduction Scheme not only does not take account of improvements in design and actions undertaken, but by improving efficiency and minimising emissions, it actually penalises such activity.

GREENHOUSE CHALLENGE PLUS

In Australia, the management of greenhouse gas emissions has continued to be in the forefront of our operations. For example, in 2006 we joined the Greenhouse Challenge Plus Programme, with our first report being submitted in 2007. We also elected to take a "beyond compliance approach" in our participation in the government's energy efficiency opportunities programme.

WAFMA

In the first agreement of its kind, ConocoPhillips (through Darwin LNG) signed an agreement with the Northern Territory Government and the indigenous landowners in a wildfire (i.e. savannah burning) management programme that reduces greenhouse gas emissions while preserving the cultural traditions of indigenous landowners. This programme which is administered by the NT Government is known as the West Arnhem Fire Management Agreement (WAFMA).

The WAFMA Project has been exceptionally innovative and, in the context of statements made in the White Paper, WAFMA:

- Is certified by the Australian Greenhouse Office as an offset;
- Has already been (for several years) providing indigenous jobs; and
- For several years has been providing a Greenhouse offset, with approximately 180,000 tonnes CO₂-e/year for the calendar year of 2007 alone, which is in the order of 10% of Darwin LNG's emissions (attached is a Greenhouse Gas Abatement Certificate). The results for calendar year 2008 are not yet available.

In August 2007, the WAFMA project won the IAG Eureka Prize for Innovative Solutions to Climate Change presented by the Australian Museum. Further details on WAFMA are available at <http://www.atns.net.au/agreement.asp?EntityID=3638> while details on this award are available at <http://www.austmus.gov.au/eureka/index.cfm?objectid=55A0F975-EAA1-4C4E-5506CBAC18FDEA41>.

The White Paper appears to put off any discussion about savannah burning, but ConocoPhillips and the Northern Territory Government already have one such scheme operating effectively. The legislation/Regulations must recognise and allow WAFMA as an official offset.

JPDA/SUNRISE

The Commentary Paper on the main Bill Page 80 Section 1.282 states:

“The Government is considering whether the Scheme should include specific provisions relating to activities in the Joint Petroleum Development Area and the Greater Sunrise Oil and Gas Field (and pipelines associated with them) in the light of Australia's international obligations. The final decision on this issue will be included in the final bill prepared for introduction.”

ConocoPhillips (and its Co-venturers) has a significant interest in the Joint Petroleum Development Area (JPDA) with its Bayu-Undan operations. ConocoPhillips also currently employs many East Timorese people such as on the Bayu-Undan facilities and in Dili at the heliport. ConocoPhillips also sponsors many other initiatives to support the East-Timorese people.

ConocoPhillips is a Co-venturer with Shell and Woodside in the Greater Sunrise Fields, and so ConocoPhillips has a strong interest in any discussions regarding the Greater Sunrise area.

The ramifications of including the JPDA and Sunrise Project must be more closely considered including the potential cost implications for the Timor-Leste people.

ConocoPhillips encourages the Government to consult widely on any such intentions so that all parties can fully understand any and all ramifications. ConocoPhillips suggests that a comprehensive stakeholder engagement plan and timeline must be developed as this affects many, including ConocoPhillips.

TIMELINE

As mentioned above ConocoPhillips has included many greenhouse gas emission reduction aspects in its activities without legislation, and supports global action to reduce greenhouse gas emissions. However, unilateral action by Australia in all likelihood won't have a significant impact on global emissions. It is important for Australia to show leadership, commitment and the courage to take the lead, but if the fundamental design of any such scheme is not absolutely correct, the potential to negatively impact jobs, growth, investment and our competitiveness could be significant.

Therefore, it is imperative to get any local scheme right. The time required to consider the ramifications, to deal with them and implement the inherently noble intent of the Scheme should be provided for and not be a victim of a schedule which is too short. The timelines with which the CPRS, including this Draft Legislation, are being progressed do not allow the ramifications to be properly considered, discussed and effectively dealt with.

Because sufficient detail will not be available in the current schedule, the full impact of the following two issues cannot be adequately addressed by ConocoPhillips, (1) the current parallel processes of developing regulations while also developing activity definitions (which has not yet been finalised for LNG production) even though the May 1 submission date is drawing closer, and (2) the decay of the EITE assistance package over time which further penalises the LNG industry in Australia by promoting a non-level playing field with our international competitors who are not subject to such costs.

A rushed review may result in unforeseen aspects slipping through with dire consequences. It is noted that a major review is planned for 5 years after scheme commencement but ConocoPhillips suggests that (in any scheme) it should be legislated that a significant review must be scheduled one year after the start of any scheme and again after another year to pick up any dire unwanted/unexpected consequences as 5 years is potentially far too long if such circumstances arise.

REGULATIONS

The Draft Legislation puts off many key aspects to Regulations, but it appears as if the plan is to release Regulations after the key legislation goes to Parliament. This makes it very difficult to see the whole package, to consider the Scheme in its entirety and therefore appreciate and understand its ramifications.

AUSTRALIA'S LNG INDUSTRY

The Australian LNG industry currently intends to expand to meet world energy demands for example ConocoPhillips is a 50/50 Co-venturer with Origin in coal seam gas opportunities in Queensland with potentially 4 LNG trains of comparable size to Darwin LNG with billions of dollars of investment and thousands of jobs. In addition, Chevron and its Co-venturers have Gorgon and Wheatstone, while various other companies are looking at LNG developments in the Gladstone region in Queensland and off the Kimberley Coast of Western Australia. All care should be taken to ensure that such proposals are not derailed by a Scheme that has not been fully designed, with potential loss of jobs and investment.

CLIMATE CHANGE ACTION FUND

The White Paper refers to the Climate Change Action Fund (CCAF) in the context of providing funding to assist companies to implement greenhouse gas reduction initiatives. There is currently little information available to describe how the CCAF will work. It is imperative that any such scheme provides assistance on the basis of cost effectiveness (e.g. \$ per tonne CO₂-e) of the proposed mitigations as this will provide the most emissions reduction for any given scheme cost. ConocoPhillips encourages all concerned to make this guidance available soonest so we can see

the whole picture of the proposed CPRS and understand how the CCAF fits into the big picture of the scheme.

CONCLUSION

As a minimum, the CPRS should consider and take account of the following USCAP principles and recommendations, namely to:

- Account for the global dimensions of climate change;
- Create incentives for technology innovation;
- Be environmentally effective;
- Create economic opportunity and advantage;
- Be fair to sectors disproportionately impacted; and
- Reward early action.

ConocoPhillips understands its global obligations with respect to greenhouse gas emissions and has implemented many innovative ways to reduce/offset emissions. However, our review of the Legislation, and in the absence of Regulations, the CPRS does not adequately account for these fundamental principles.

This impact on the international competitiveness of the LNG industry in an international market has the potential to cost Australian jobs, not have the intended effect on reducing global emissions and in fact potentially (and perversely) increase global GHG emissions.

ConocoPhillips strongly urges the Australian Government to reassess its assistance to the LNG export industry as LNG is an intermediate fuel to assist the planet on its quest to a carbon-less economy.

ConocoPhillips is committed to working with the Government to achieve an outcome that is satisfactory to, and workable for, the whole of Australia.

Our ref BFGD2006/0115~0016
Your ref

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Dear Sir

Please find attached abatement certificates for the WAFMA 2007 project year consistent with schedule D of the Agreement.

2007 was highly successful in abatement greenhouse gas emissions through fire management in West Arnhem Land. In addition to the target abatement of 100,000 tonnes of CO₂equivalent, an excess certificate is provided for 84,376 tonnes.

This is a remarkable achievement and a credit to your company and the Traditional Owners of West Arnhem Land who have forged this project.

We look forward to the continued success of the project and your ongoing support. Should you have any enquiries on this matter, please contact Mr Steve Sutton Director Bushfires NT on 8922 0832.

Yours sincerely



JIM GRANT

May 2008

3 June



NORTHERN TERRITORY GOVERNMENT

2007

Greenhouse Gas Abatement Certificate
Minimum Abatement

The Northern Territory of Australia ("Territory") agrees and certifies that:

- (a) the implementation of the West Arnhem Fire Abatement Project ("Project"), has prevented greenhouse gases equal to at least one hundred thousand (100,000) tonnes of carbon dioxide equivalent from being emitted to the atmosphere in the 12 month period commencing 1 January 2007 to 31 December 2007 ("2007 Calendar Year");
(b) Darwin LNG Pty Ltd (ABN 48 085 130 981) is recognised as the sole owner of all legal, commercial and beneficial rights to and arising from the Minimum Abatement;
(c) the Minimum Abatement means the abatement of greenhouse gases equal to one hundred thousand (100,000) tonnes of carbon dioxide equivalent in the 2007 Calendar Year as a result of implementation of the Project;
(d) the land from which the Minimum Abatement was generated is set out in Attachment A to this certificate;
(e) the carbon accounting methodology for calculating the Minimum Abatement is based on and consistent with the methodology that has been independently audited by the Australian Greenhouse Office within the Commonwealth Department of Environment and Heritage as being an accurate method for quantifying the level of abatement generated by the Project.

Executed as a Deed Poll

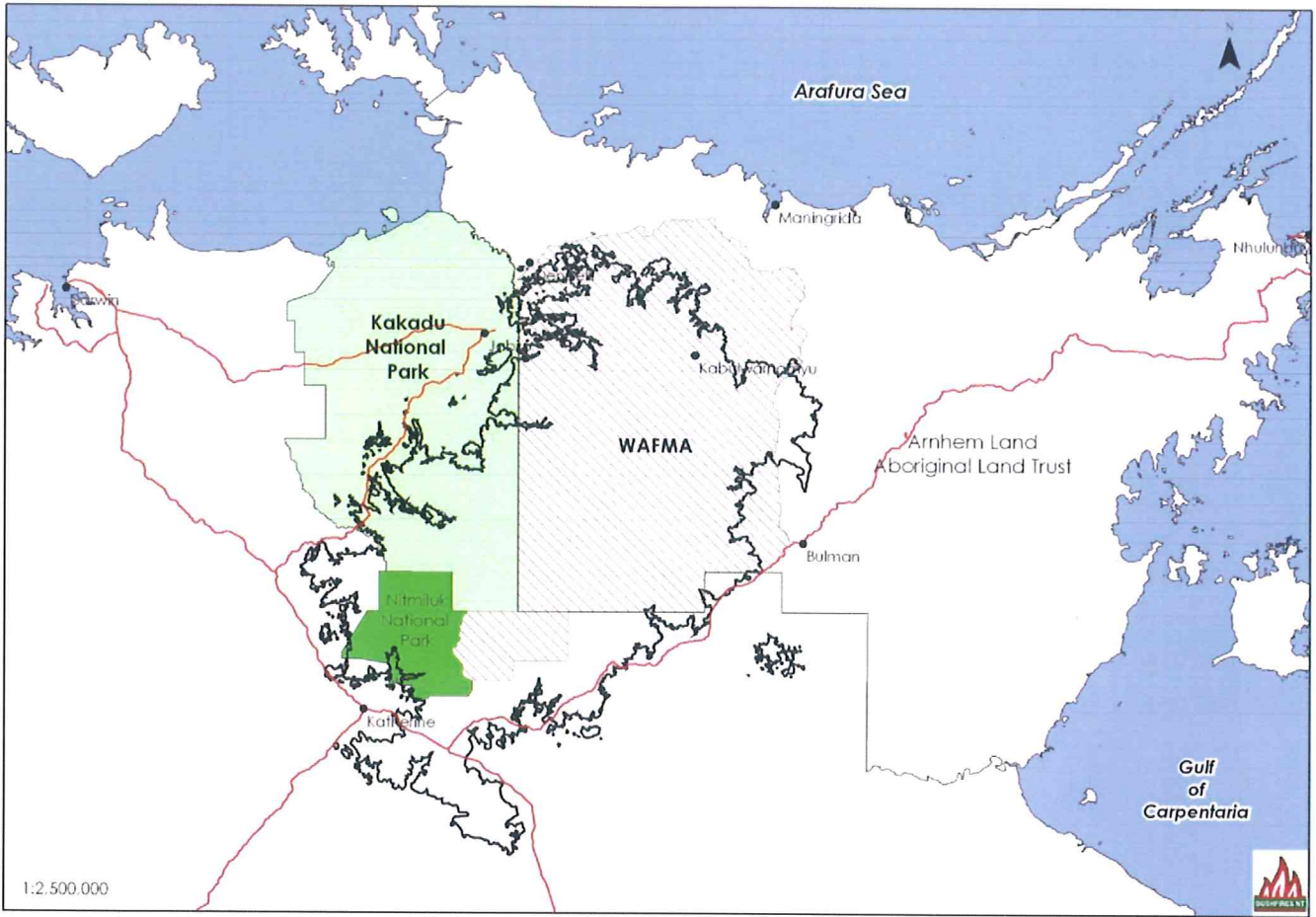
SIGNED by [Signature] for and on behalf of the NORTHERN TERRITORY OF AUSTRALIA by a duly authorised officer in the presence of:

[Signature]
Signature

[Signature]
Signature of Witness

Catherine O'Brien
Name of Witness

ATTACHMENT A



WAFMA PROJECT AREA



NORTHERN TERRITORY GOVERNMENT

2007

Greenhouse Gas Abatement Certificate
Excess Abatement

The Northern Territory of Australia ("Territory") agrees and certifies that:

- (a) it has implemented the West Arnhem Fire Abatement Project ("Project") over the 12 month period commencing 1 January 2007 to 31 December 2007 ("2007 Calendar Year");
- (b) as a result of implementing the Project, the Excess Abatement in the 2007 Calendar Year period is equal to 84,376 tonnes of Carbon dioxide equivalent.
- (c) Darwin LNG Pty Ltd (ABN 48 085 130 981) is recognised as the sole owner of all legal, commercial and beneficial rights to and arising from the Excess Abatement;
- (d) the land from which the Excess Abatement was generated is set out in Attachment A to this certificate;
- (e) if a greenhouse gas emissions scheme (whether or not involving trading), or Commonwealth, State or Territory legislation or the common law, so permits or requires, the Territory will take such steps as are reasonable in the circumstances to assist Darwin LNG Pty Ltd apply for or otherwise obtain sole legal commercial and beneficial right to the Excess Abatement;
- (f) the carbon accounting methodology for calculating the Minimum Abatement is based on and consistent with the methodology that has been independently audited by the Australian Greenhouse Office within the Commonwealth Department of Environment and Heritage as being an accurate method for quantifying the level of abatement generated by the Project.

Executed as a Deed Poll

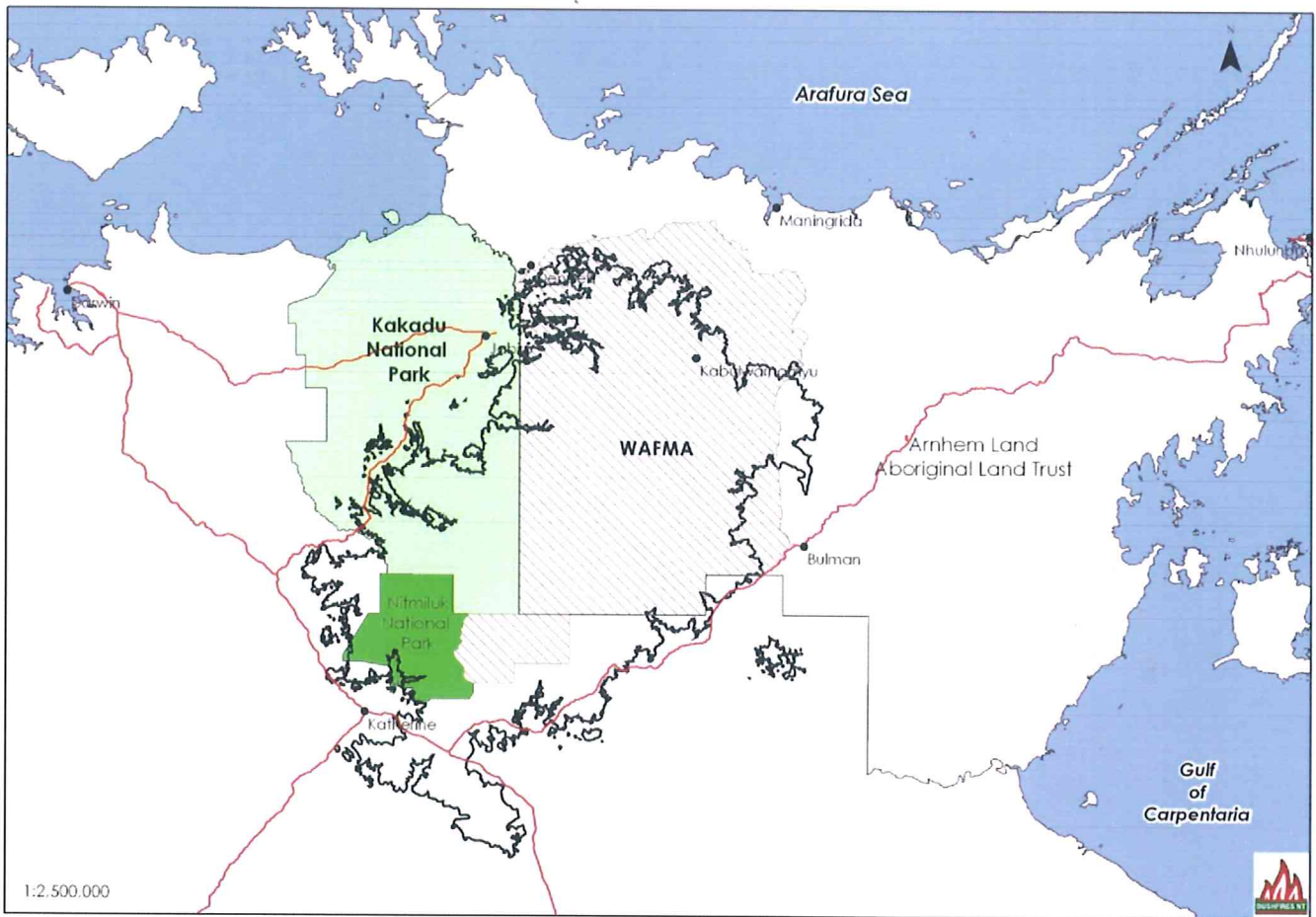
SIGNED by JAMES CUMMINT for and)
on behalf of the **NORTHERN TERRITORY OF**)
AUSTRALIA by a duly authorised officer in the)
presence of:)

.....
Signature

.....
Signature of Witness

.....
Name of Witness

ATTACHMENT A



WAFMA PROJECT AREA