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### **bp Australia response to the Powering the Regions Fund consultation paper**

bp welcomes the opportunity to respond to the Department of Climate Change, Energy, Environment and Water's (DCCEEW) consultation paper on the Powering the Regions Fund

#### **About bp**

bp's purpose is to reimagine energy for people and our planet. Our ambition is to become a net-zero company by 2050 or sooner; and to help the world get there, too. Globally, bp aims to be net-zero across our operations (scope 1 & 2), in our oil and gas production (scope 3) and in the energy products we sell (life-cycle emissions intensity). For each of these we have also set short-term (2025) and medium-term targets (2030). You can read more about our net-zero plans and progress in our [Net-Zero ambition report](#) released earlier this year.

Globally we are aiming to be a different company by 2030:

- reducing our oil and gas production by 40% by 2030 and lowering emissions, while keeping up cash flow by high-grading our hydrocarbon portfolio and growing bioenergy;
- investing in low carbon energy to rapidly scale up in solar and offshore wind, and develop new opportunities in carbon capture and clean hydrogen.
- switching on 100,000 EV charging points and opening more than 1,000 new strategic convenience sites.
- doubling down on five transition growth businesses, planning for more than 40% of the capital we invest to be in bioenergy, convenience, EV charging, renewables, and hydrogen by 2025.

We are committed to playing our part by delivering low carbon solutions and providing cleaner, more affordable, and reliable energy to our customers. Here in Australia our business includes:

- LNG production with a share in Northwest Shelf and as well as the potential Browse gas reserve
- Liquid fuels supply, including to passenger, mining, freight, marine and aviation
- Renewable energy with a 50 per cent ownership of LightSource bp, Australia's largest solar developer
- Equity in, and operatorship of, the Australian Renewable Energy Hub (AREH) in the Pilbara with plans to supply renewable energy and low carbon hydrogen to domestic and export customers.

- Exploring renewable fuels and green hydrogen production at our Kwinana site and another green hydrogen project Geri in the mid-west of Western Australia.
- Carbon Capture and Storage, with the recent award of a GHG Assessment Permit in the Carnarvon Basin which has potential to support the decarbonization of our own assets and the creation of a large-scale, multi-user hub.
- Providing decarbonized transport solutions like electrification and hydrogen for mobility.
- Low carbon trading team, that sources and trades a range of carbon offsets and compliance units for our own use and for our customers.

As both a large emitter, with some assets trade exposed, as well as a provider of low carbon solutions for our Australian customers, we understand the importance of a holistic framework of policy incentives and government funding to help Australia meet its emission reduction goals. The Powering the Regions fund (PRF) should be designed with a clear view of its role within this broader frame.

### **Objectives and scale of PRF**

bp supports the multiple objectives of the PRF and understands the proposal for different streams of support. Given the potential competing demands on the PRF, bp recommends a clear framework be developed to help prioritize and direct funds between the different streams.

bp does caution the complexity arising from designing a fund to deliver multiple objectives. While the objectives are aligned, each has its own unique considerations and would likely require different implementation arrangements (such as different funding structures, different criteria and eligibility). As indicated by the long list of related funding arrangements, the landscape is already difficult to navigate for emitters and low carbon investors. Careful coordination between the different streams and other funding sources will be required and support for applicants to help them navigate.

bp notes that some investments (i.e. in support of a clean hydrogen industry or in support of shared infrastructure) will support outcomes under multiple proposed streams and that these investments should be accommodated.

bp is encouraged by the intention to design the PRF so that it can leverage and complement other policy (such as the safeguard mechanism and energy market reforms) as well as other available funding. It will be important that the PRF focuses on filling gaps with these other funding sources and that it allows stacking with them where appropriate.

bp notes, even when considering these other incentives and forms of support, the scale of the PRF, \$1.9b, is unlikely to be sufficient to achieve the stated objectives. bp encourages the government to consider the package of current and planned incentives and available support for low carbon investments in Australia in the context of support provided in other jurisdictions. For example, the European Innovation Fund has €38 billion available in the period to 2030 to bring to market industrial decarbonization solutions that can help European business reduce emissions and support their competitiveness. In the United States, the recently enacted IRA will provide USD \$393.7 billion in incentives to support low carbon industries and investments.

Without commensurate support for investments in Australia, there is a risk capital, technology and skills will be directed to other locations.

### **Type of funding provided**

bp suggests the PRF be designed to be flexible, providing different types of funding aimed at providing solutions to the different barriers that different emission reduction opportunities face. Not all decarbonization options will require capital investments, some might be process changes and others might face policy uncertainty that would benefit from being underwritten. The PRF should support the full spectrum of abatement potential with the type of funding tailored to the needs of a particular project, industry, or technology, with the aim of making these investible.

We note many of the complementary funds mentioned in the consultation paper provide concessional financing and that this type of support will be useful where the barrier to the abatement investment is access to and/or cost of capital. We also understand the role that upfront capital grants can play in bringing forward investments. However, we strongly recommend the PRF be established to structure support in other ways. We encourage the government to consider successful funding models that have been deployed in other jurisdictions.

In particular, we encourage consideration of contract for difference (CfD) and carbon contract for difference models. These sorts of funding arrangements have been used to bring forward investments in renewable energy as well as hydrogen and could be adopted for other types of abatement as well. They are particularly useful in supporting the development of new markets. By providing a “top up” to close the gap between the cost of production and the price customers are willing to pay (including for example a carbon price), they bring forward the investment needed to make the low carbon product available, which in turn gives the emitter confidence to make their own investments to adopt the new low carbon product. They can also be designed to automatically adjust as production costs are reduced (for example as input costs and technology costs decline) and willingness to pay increases (for example with the carbon price) over time.

### **Take a technology neutral approach**

bp supports the PRF taking a technology neutral approach and being open to support the full spectrum of abatement opportunities across the economy. We’re encouraged to see some of the types of projects being considered including renewable energy and energy efficiency, hydrogen and biofuels, and carbon capture, use and storage.

### **Value for money**

bp recognises that value for money is relevant and competition should be encouraged – but a longer-term view is also needed. In assessing funding options, it is important to consider what kind of investments from government now will build the cost-effective emission reduction options for the medium and long-term.

bp expects as government implements a more comprehensive policy framework to drive emissions across the economy (such as the safeguard mechanism reforms and energy market reforms) that these policy incentives should be sufficient to support investments in the lowest



cost emission reductions. The PRF could usefully fund those emission reduction investments that need additional support to be investable but have a trajectory to be commercial in the medium to long-term.

### **Joint applications and applications by third-parties**

bp encourages the fund to allow for joint and consortia applications as well as applications by third-party providers. We anticipate there will be many new investments that will help reduce emissions of more than one emitter. This may, as discussed in the consultation paper, be shared infrastructure and shared planning projects, but also where funding supports new capacity that can provide a low carbon product to more than one emitter, for example hydrogen production, renewable fuels production, and CCS hubs.

### **Taking a regional focus**

bp understands the role that regions will take in support of Australia's decarbonization goals. In our experience there is a particular need for coordination at the regional level to plan for decarbonization, to understand and invest in the shared infrastructure needs such as transmissions, ports, and roads, but also housing and other essential services needed to support a low carbon workforce.

Despite this very important need for regional action and investment, a strict "regional" focus will not always be most effective. In some cases, a place-based approach will be appropriate (for example, if the PRF was to invest in a regional decarbonization strategy or when looking to invest in shared infrastructure as discussed above), but in other cases, it would be more effective to take an industry or technology approach (for example, in the case of developing new industries like renewable hydrogen).

### **Safeguard Transformation Stream**

Given the limited detail of the current proposal, bp encourages the government to further engage closely with trade exposed entities on the design. To best design this stream, it will be important to clearly define its primary objective. The focus on trade exposed entities would suggest the stream is intended to reduce or minimize the risk of carbon leakage and/or to support the continued competitiveness of Australia's trade exposed entities in a carbon constrained global economy. It has also been suggested it is intended to help overcome the "hard to abate" nature of emissions for some of these entities. These different objectives could direct the stream toward different criteria and detailed design.

This stream will need to be designed to reflect the different abatement options for trade exposed entities and costs associated. Not all abatement options will come with capital costs, some will relate to process improvements and others may come from higher operational cost for example to cover the higher cost of low emissions fuels when an entity fuel switches. The PRF should be open to bringing forward all of these types of investments.

### **Workforce development**

bp stresses the importance of a skilled workforce to the success of Australia's decarbonization plans. Access to adequate trades, engineers, operators and other skilled workforce will be a key requirement. The pace and scale of the transition will need a concerted effort to attract existing skilled workers as well as upskill new workers. We are encouraged that understanding

the requirements and preparing the workforce needed is a priority for government within its broader skills and training programs.

bp suggests that the PRF can best achieve its workforce development objectives by embedding these within the other streams rather than a dedicated funding stream. We support the suggestion that workforce development be encouraged as part of the assessment criteria for the proposed streams of funding.

### **Purchase of ACCUs**

bp understands the government intends to assess the ongoing role of the PRF in purchasing ACCUs as part of its broader planning for the implementation of the recommendations of the Chubb review.

bp does however note the government has also proposed a cost containment approach for the safeguard mechanism that would rely on the government acquiring ACCUs to sell to safeguard entities at the cost containment price. We understand any such purchases would be funded by the PRF. The amount of funding that would be directed toward this stream will presumably impact the volume of ACCUs available for cost containment should it be needed and have implications for its effectiveness. At the same time this stream will compete with other streams that could be directed toward emissions reductions that would reduce the price paid under the safeguard, not only reducing the need for the cost containment but also reducing the impact on trade exposure entities and need for baseline adjustments. This interaction with the safeguard mechanism will necessarily require careful consideration of how this function relates to other streams of the PRF.

### **Closing remarks**

We support the goals of the 2015 Paris Agreement on climate change and believe ambitious climate policies will be essential to enable the world and Australia to meet these goals. bp supports well-designed, stable, and long-term policy frameworks to incentivize the necessary investments in low carbon solutions and understands the important role government funding can play alongside policy incentives. We look forward to working with the government as the design the PRF is finalized and funding is invested.