bp Australia Pty Ltd
A.B.N. 53 004 085 616
717 Bourke Street
Docklands Victoria 3008
Australia

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bp Australia response to the consultation on the Safeguard Mechanism implementation: production variable updates and international best practice benchmarks

bp welcomes the opportunity to provide comment on the Safeguard mechanism production variable updates and international best practice benchmarks to be used to determine the baselines for new entrants under the safeguard mechanism.

bp supports the reformed safeguard mechanism as it has the potential to support the investment needed to drive emissions reduction from the heaviest emitters in Australia. Australia's decarbonization will see a range of new investments and activities and some of these new entrants will be safeguard entities. We acknowledge Government has determined that baselines for new entrants will be set with reference to international best practice. We understand the policy intent is to encourage the deployment of the latest technologies and best emissions performance, but not be so onerous to act as a barrier to entry.

About bp

Globally, 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 (scopes 1 & 2), for the carbon in our oil and gas production (scope 3) and for the energy products we sell (life-cycle emissions intensity). For each of these, we have also set short-term targets (2025) and medium-term aims (2030).

Globally we are:

- Reducing our oil and gas production by 25-30% 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 worldwide.
- Doubling down on five transition growth businesses: bioenergy, convenience, EV charging, renewables, and hydrogen by 2025.

In Australia, we are developing projects consistent with our global strategy and continuing to provide our customers with the fuels they need today, when and where they need them:

- We are the operator of the Australian Renewable Energy Hub in the Pilbara, which will provide green electrons and green hydrogen to help decarbonise local customers and to provide hydrogen for export. The Australian Renewable Energy Hub has the potential to be one of the world's largest renewable energy hubs, with plans to use solar and wind resources to produce green hydrogen.
- We're transitioning our Kwinana refinery site into a clean energy hub: we're in front-end engineering design (known as FEED) on the Kwinana Renewable Fuels project and exploring hydrogen production as part of H2Kwinana.
- We are also working on another hydrogen project – GERI at Oakajee in the mid-west, which is bp owned.
- We own Lightsource bp, an independently operated global business with a significant renewable generation portfolio here in Australia.
- We're working with partners exploring the possibility of a large-scale, multi-user CCS hub, Angel, off the coast of Western Australia.
- We're rolling out electric vehicle charge points through our bp pulse brand in Australia and bp EV charging in NZ, and we're exploring options with partners to decarbonise heavy transport, including hydrogen refueling.
- We have domestic gas and LNG interests in Western Australia as a founding participant in the pioneering North West Shelf LNG project and have recently increased our interest in the proposed Browse LNG development and are working on ways to decarbonise these operations.

Some of our planned investments, such as the Kwinana Renewable Fuels Project and the Browse gas project would be new entrants under the safeguard mechanism. As would many investments of our customers such as in expanding mining of critical minerals and green steel production. Many of these investments while high emitting, will support Australia's and/or the global transition to net-zero.

The new production variables for renewable fuels

bp is currently developing its Kwinana Renewable Fuels Project (KRF) in Western Australia. Should the investment proceed, the plan is to be producing Sustainable Aviation Fuel, renewable diesel, and bio-naphtha from 2026. Our initial assessment is that KRF could be a new entrant safeguard facility so these new production variables are needed. We look forward to working with the department in developing appropriate international best practice benchmarks for these production variables.

The new production variables for Hydrogen

We also welcome the introduction of the proposed production variable for hydrogen. We expect to be producing hydrogen for third parties, and while our projects that are all proposed to use electrolysis may not be captured under the safeguard mechanism, we recognize that others may.

International best practice benchmarks

bp acknowledges the government's policy intent is to set baselines for new entrants consistent with international best practice, but believes implementation should be reasonable, seeking to encourage the deployment of leading technology and design for Australia's new entrants without acting as a barrier to entry.

Recommendation 1: provide greater transparency on the data used to underpin benchmarks
We encourage greater transparency around the data and facilities used to generate the proposed international best practice benchmark. We are concerned that we are unable to reproduce the resulting benchmarks even with having access to significant industry data. We also understand that some industry data sources may have limitations when used for this purpose (i.e., not what the data was collected for) and that some industry data sources may have different data for particular facilities to that of the operator for that facility. In this case the data from the operator is likely to be more accurate.

We encourage further consideration of the methodology since it appears several benchmarks rely on data from a very small number of facilities. Relying on data from just 1 or 2 facilities is unlikely to be representative/appropriate for determining a benchmark.

Recommendation 2: ensure benchmarks are achievable, not a theoretical construct
We accept that the safeguard mechanism baseline is not a strict performance baseline and that safeguard entities will continue to have flexibility to use ACCUs and SMCs should their emissions exceed the baseline. Nonetheless, the achievability of the benchmark with deployment of latest technologies should be a simple test of whether the benchmark is appropriate. Our assessment is that in some cases the benchmarks proposed would not be achievable even if the latest technologies and best design are deployed and that the proposed baselines do not align with other benchmarks for best practice. Greater clarity on the technologies used at the international best practice facilities would help in assessing if these are feasible in Australia.

We reiterate our earlier concern with the methodology that determines best practice benchmarks on a production variable basis. The stacking of best practice benchmarks for different production variables determined with reference to different facilities seems to lead to baselines for new entrant facilities that don't reflect the performance of any existing facility.

The methodology also indicates the intention to make appropriate adjustments for Australian conditions, namely for geology and climate. But it is not clear what, if any, of these adjustments have been made. We do see reference to international facilities for some production variables, where the geology and climate of those facilities would make it difficult to replicate the same emissions performance here in Australia (e.g., gas facilities in the UK and Norway).

Recommendation 3: re-consider benchmarks that unduly disadvantage new entrants
We understand international best practice baselines for new entrants would typically mean baselines assuming performance better than incumbents. We understand the rational for this is that new entrants can deploy the latest lower emission technologies and design in a way that incumbents cannot. However, several of the proposed benchmarks imply a significant improvement over and above the current industry average for the same production variable. In some cases, even for those production variables where it is acknowledged that Australia's performance is already world leading. Care should be given so that the implementation of international best practice benchmarks does not unduly disadvantage new entrants compared to incumbents because this risks undermining the incentives of the safeguard mechanism that should see a shift toward lower emission producers.

Recommendation 4: review methodology to allow more consistency across production variables

The implementation of the international best practice benchmarks as proposed seems to lead to inconsistent treatment across different sectors and production variables:

- some benchmarks are set with reference to 5 international facilities, others to just two, others with reference to Australia's top performers (often just one facility) and others again based on a "supplementary approach".
- When referencing international facilities, adjustments are made to cover production equivalent to 10-25% of Australian production (this is quite a range leading again to potential inconsistencies). When Australia's top performance is used instead, it represents the top 10% of data points which we understand typically only captures the top performing facility.
- In some cases (for example the hydrogen benchmarks), comparative international facilities have been ruled out because they are pilots, or receive significant subsidy, but it is not clear if these same considerations have been given when selecting international comparisons in other sectors.

Greater consideration should be given to the implications of these inconsistencies and whether they introduce inefficiencies across the SGM.

Closing remarks

We appreciate the opportunity to provide input and look forward to working with the government as it finalizes the international best practice benchmarks.