

**Submission to National Emissions Trading Task Force
In Response to Stakeholder Consultation Paper**

**Santos Limited
November 2005**

Santos is committed to operating with a view to our long-term sustainability as an energy company. For Santos, sustainability is making economic progress, protecting the environment and being socially responsible – all on the foundation of sound corporate governance.

Santos is a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in the United States, Indonesia, Papua New Guinea, Egypt and Kyrgyzstan. Santos is Australia's largest net gas producer, supplying sales gas and ethane to all mainland Australian states and territories, and selling oil and liquids to domestic and international customers.

Santos supports the introduction of a National Emissions Trading Scheme as part of a broader response to lowering greenhouse gas emissions. Emissions trading provides a mechanism by which the market determines the least cost means of emissions abatement. Natural gas is the preferred bridging fuel between today's high-emission coal-fired electricity generation and a clean-fuel future. If Australia is to achieve the required emissions abatement over the next 20 years natural gas must play a much greater role in electricity generation.

Santos welcomes the opportunity to provide a submission in response to the working paper. We have elected not to provide a detailed question by question submission but instead focus on key principles. We look forward to continuing consultation with the task force. In particular we would like to meet with the secretariat to discuss the details behind our submission.

1. Scheme Coverage

- 1.1 A scheme should be introduced as soon as possible but should allow for reasonable transition time to enable participants to put in place the necessary measurement and reporting systems. We envisage start-up before the end of the decade coinciding with the requirement for new (gas fired) base-load electricity generation in Eastern Australia.
- 1.2 A scheme should be national and have the ability to link internationally with compatible schemes.
- 1.3 A scheme should capture the entire stationary energy sector from first initiation. This could then be extended to embrace all greenhouse gas emitting sectors as the scheme evolves.

2. Emissions Targets

- 2.1 The initial emissions target for each participant should be set to reflect that participant's historical emissions ("grandfathering"), and be perpetuated for the initial commitment period of the scheme.
- 2.2 The scheme should include a mechanism by which the emissions target can increase to reflect business growth (or new entrants).
- 2.3 Provision should be made to recognise early mover (i.e. before scheme initiation) abatement activity but such abatement should not compromise the level at which the initial emissions target is set

These principles apply regardless of whether the scheme is constructed as a cap-and-trade or baseline-and-credit arrangement.

3. Certificate Allocation

- 3.1 Allocation of certificates should be under an optimised mix of free-administrative, fixed priced-administrative and auctioning arrangements.
- 3.2 The allocation split, number of certificates allocated and price of certificates will be determined such that total revenue raised does not exceed the cost to operate the scheme.
- 3.3 Allocation price should reflect relative levels of emissions intensity such that high-intensity emitters pay more than low-intensity emitters. This will be carried through to the value that the market places on certificates on commencement of trading.
- 3.4 Tenure of certificates should be for a minimum of 10 years or other such period to reflect the sector's long investment cycles, and irrespective of the question of what happens beyond the first Kyoto commitment period (2012).
- 3.5 Because upfront capital investment and ongoing operating costs for measurement and reporting systems are expected to be considerable, a mechanism should be provided to compensate participants.

4. Market Pricing

- 4.1 A scheme should be underpinned by a capped penalty with the cap set at a supportable multiple of the current marginal cost of sectoral abatement. This multiple will be determined through consultation with participants. The application of penalties should include a mechanism that allows for un-intentional emissions from operational incidents.
- 4.2 Mechanisms should be provided to allow for the price of certificates to equilibrate with other emissions markets. These mechanisms would include access to offsets and linkage into international emissions trading schemes.