Santos Ltd
ABN 80 007 550 923
Santos Centre
60 Flinders Street
Adelaide South Australia 5000

GPO Box 2455
Adelaide South Australia 5001
Telephone: +61 8 8116 5000
www.santos.com

Santos

18 March 2021

RET and Clean Energy Section
Clean Energy Regulator

By email: CER-RETandEnergySection@cleanenergyregulator.gov.au

Corporate Emissions Reduction Transparency Report Consultation Paper

Thank you for the opportunity to review and provide a submission in relation to the proposed Corporate Emissions Reduction Transparency (CERT) Report Guidelines.

Santos is committed to transparent reporting in relation to our climate-related strategy, metrics and targets, governance and risk management. In this vein, we are supportive of a mechanism that enables companies to transparently demonstrate their commitments to sustainable and impactful emissions reduction.

As a proudly Australian energy producer, Santos has a portfolio of five core natural gas assets in Western Australia, northern Australia and Timor-Leste, Papua New Guinea, Queensland and NSW, and the Cooper Basin (northeast South Australia and southwest Queensland).

Critical to our corporate strategy is management of emissions.

Santos' Climate Change Policy guides the company's activities to reduce greenhouse gas emissions as it produces the reliable, affordable and cleaner fuels required to meet domestic and global demand. Through the commitments made in our Policy, Santos is striving to contribute to the global aspiration to limit temperature rise to less than 2 degrees Celsius.

Santos has been reporting under the National Greenhouse and Energy Reporting (NGER) Act since its inception in 2008. Our Scope 1 greenhouse gas emissions are independently audited each year. Santos' Scope 1, 2 and 3 greenhouse gas emissions data is published annually in our Climate Change Reports that are consistent with the recommendations of the G20's Taskforce on Climate-related Financial Disclosures (TCFD).

We have a suite of emissions reduction targets that support us in the journey toward sustainable and impactful emissions reduction. These include medium and long-term Scope 1 and 2 emissions reduction targets on an equity basis, targets for investment in step-change emissions reduction technology and targets to support the reduction of Scope 3 emissions.

Santos has made excellent progress on our suite of existing 2025 targets, enabling us in 2020 to set new emissions reduction goals that place us at the forefront of our sector: reducing equity-share emissions by 26 to 30 per cent by 2030 from 2019-2020 levels and to net-zero by 2040.

The proposed reporting structure for emissions reduction outlined in the CERT Report Guidelines will not accurately or appropriately reflect the long-term commitments and investment that our company is making to meaningful and sustainable emissions reduction within Australia.

This is because Santos, like many companies in Australia, has existing voluntary targets that are long-term, equity-based and are not able to be measured through year-on-year cancellation of carbon units with reference to gross-emissions NGER reporting.

We have undertaken a review and analysis of the proposed CERT Report and in the attached submission we provide a detailed response to the CERT Report Guidelines. This submission outlines our support of a mechanism for transparent reporting and concerns that this will not be achieved by the reporting structure as proposed.

Enabling reporters to provide a means beyond cancellation of units, such as a qualitative description against equity-based voluntary targets, is critical to effectively demonstrate steps taken toward longer-term targets.

We would be pleased to engage with RET and the Clean Energy Section on this submission in more detail and to participate in further industry consultation with respect to the CERT Report to ensure its efficacy in supporting a constructive and accurate reporting framework.

Yours sincerely

Beverley East
Head of Government Affairs

Santos

Santos Limited – Response to Corporate Emissions Reduction Transparency Report Consultation Paper

Response summary

Santos holds itself to a high standard of transparent reporting on climate change. We are supportive of the Clean Energy Regulator's proposal for a voluntary reporting mechanism to demonstrate reporters' progress toward achievement of the emissions reduction targets.

In particular, Santos supports the following inclusions in the CERT Report proposal:

+ Scope 1 and Scope 2 emissions.
+ Surrenders of Australian Carbon Credit Units (ACCUs) from NGER facilities delivered under Emissions Reduction Fund contracts.
+ Certified and verified emissions reduction/carbon units.
+ Opt-in participation.

However, the proposed reporting structure would not achieve accurate reporting of voluntary corporate emissions reduction targets. This is because:

+ The demonstration of progress toward targets is limited to the annual surrender of units.
+ Targets are required to be based on gross NGER-reported emissions.
+ There is a restriction to inclusion of one voluntary emissions reduction target.
+ Reporting is based on activities within a financial year.

Addressing these limitations will enable reporters to transparently and robustly demonstrate progress against equity-based and long-term targets. This will provide a more accurate demonstration of the legitimate steps that Australian businesses are taking to deliver emissions reduction demanded by their shareholders.

There are other, more effective ways to accurately capture emissions reduction progress. For example, enabling reporters (within handrails) to provide more qualitative reporting of achievement toward equity and science based targets, and to ensure a level of rigour, provide a reasonable level of independent assurance over reported detail.

Santos encourages the CER to hold a workshop with industry to refine the proposal.

Further detail is provided following in response to some of the specific consultation paper questions.

Is the proposed reporting structure suitable for demonstrating how a corporation is offsetting or reducing its scope 1 emissions and scope 2 electricity consumption?

More flexibility is required in relation to the reporting and tracking of targets, including inclusion of equity-share emissions and qualitative progress toward portfolio-wide and longer-term emissions reduction. These targets are often demanded by company shareholders and do not align with NGER gross-emissions reporting requirements.

Specific issues relate to:

The demonstration of progress toward targets being limited to the annual surrender of units

The proposed reporting structure requires reporters to demonstrate progress toward achievement of targets through the surrender of eligible carbon units in a financial year.

Santos, like many other companies, has existing long-term equity-based Scope 1 and 2 targets that were not based on measurement of progress through year-on-year surrenders of eligible units.

It is critical that Australian manufacturers, businesses and homes continue to have access to affordable, reliable natural gas. Santos is committed to providing this, while also investing in credible emissions reduction projects and opportunities. Maintaining essential energy supply and attracting the necessary investment to do this also requires pursuing meaningful and sustainable emissions reduction over time.

This requires a commitment to step-change technology and innovation beyond the NGER and Safeguard Mechanism framework.

Santos is taking steps to reduce Scope 1 and 2 emissions that do not involve the short-term cancellation of carbon credits. These include integration of renewables, operational efficiencies and investment in carbon capture and storage (CCS). Proceeding with our Moomba CCS project depends on an approved methodology for CCS being in place with the Clean Energy Regulator so that the project can be registered and eligible for ACCUs.

Santos' equity-share emissions reduction targets (outside the NGER framework) are:

+ Achievement of net-zero equity-share scope 1 and 2 emissions by 2040;
+ 26-30 per cent reduction in equity-share scope 1 and 2 absolute emissions and emissions intensity by 2030, from a 2019/2020 baseline (modified for full-year Bayu Undan and DLNG equity - a 5 $MtCO_2e$ base – compared to 7.7 $MtCO_2e$ gross); and
+ A commitment to using CCS technology to accelerate the economic feasibility of clean hydrogen to deliver a step-change in emissions reduction by 2030.

Once an ACCU methodology for CCS is approved and operational, Santos' Moomba CCS project is poised to capture 1.7 million tonnes of CO_2 per annum with the potential for up to 20 million tonnes of CO_2 per annum. Santos is committed to the development of this project and to use CCS technology to accelerate the economic feasibility of hydrogen reforming from natural gas to deliver a further substantial emissions reduction.

The implementation of step-change technology takes time and investment that can mean lumpy, rather than linear, emissions reduction when assessed year-on-year. NGER reporters investing in these types of sustainable and longer-term emissions reduction strategies may appear to be making less progress toward emissions reduction under the proposed reporting structure than is actually the case because progress year-on-year will be reflected in things like percentage of project construction complete, the taking of final investment decisions, and so on. It will not necessarily be in the linear surrender of carbon credits.

This risks as a whole, implying that neither NGER reporters nor regulators/the Government are taking sufficient action toward in support of emissions reduction action, when that may be an inadequate and misrepresentative view of real and meaningful investment and commitment to emissions reduction over the mid to long-term.

Gross emissions targets

By linking reported emissions targets to gross Scope 1 and 2 emissions reduction, reporters with equity-based portfolio targets will be limited in either or both of their ability to submit a voluntary target and/or connect this target with the gross reported NGER emissions.

For companies in the resources sector, joint venture arrangements are prevalent. Under the NGER framework, typically the operator of a joint venture has 'operational control' of a facility and as such, reports the gross operated emissions for that facility.

For companies like Santos which participates in many joint ventures with both Australian and international partners, to set portfolio-wide targets means that these targets need to be equity-based.

For these reasons our targets are not directly connected to, or able to be tracked with reference to, our company's operated facilities gross reported emissions.

In addition, companies like Santos are under increasing pressure from major institutional investors, including superannuation funds, to have high-ambition emissions reduction targets that go well beyond the NGER and Safeguard Mechanism framework. Such targets are essential to maintaining access to both equity and debt financing, which in turn is essential to companies being able to continue to invest in Australian oil and gas development.

Inclusion of one target

The proposed reporting framework appears to enable reporters to submit only one gross emissions target and one renewable energy target. Santos has a number of equity-based emissions reduction targets which are relevant in supporting its emissions reduction goals and demonstrating the company's commitment to long-term Scope 1 and 2 reductions in a number of impactful ways – such as investing in step-change CCS and hydrogen technology.

Financial year target tracking

While NGER reports are compiled on a financial year basis, as with many companies, Santos has established reporting frameworks and targets that are calendar-year based. Flexibility is required to enable reporters to describe actions taken toward longer-term commitments and make sense in the context of the existing targets and corporate reporting frameworks.

Should corporations opt-in each year or should their participation be assumed to continue until they opt-out?

Santos is supportive of an opt-in model on a continuous basis to support on-going transparency and avoid short-termism/participation only during years in which a company may have taken specific action in that period to reduce emissions.

Should surrenders of ACCUs from NGER facilities delivered under Emissions Reduction Fund contracts be included in the net emissions calculation?

Yes. Including surrender of ACCUs via Emissions Reduction Fund contracts encourages companies to generate carbon units because they have a broader range of options to offset or reduce emissions. Similarly, inclusion of certified and verified emissions reduction/carbon units in a reporting scheme will encourage more accurate reporting against activities undertaken in pursuit of voluntary targets.

How could NGER reporters' voluntary targets and progress against these targets best be reflected in CERT to align with the NGER framework?

Are there any other enhancements to CERT that could help build participation?

As outlined in this submission, it is important for transparency to enable reporters to distinguish calendar year and equity-share emissions from gross emissions reported under the NGER framework.

Additionally, enabling reporters to provide a means beyond cancellation of units, such as a qualitative description against targets, is critical to effectively demonstrate steps taken toward longer-term targets.

This could be reflected in annual TCFD-aligned Climate Change Reports that provide an update on progress toward voluntary targets. A reasonable level of assurance against statements made by reporters could support credibility of reported information.

Santos encourages the CER to hold a workshop with industry to refine the proposal.