

November 30, 2005

Manager - MCE Secretariat
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra, ACT 2601

Dear Sir/Madam,

I refer to the Ministerial Council on Energy's draft Proposal for Consultation paper for the National Gas Pipelines Access Regime dated November 2003 (the Paper).

ExxonMobil, through Esso Australia Pty Ltd and Esso Highlands Limited, is a significant participant in the Australian gas market.

Along with a range of other competitors, ExxonMobil markets gas sourced from Bass Strait in Gippsland to the south-eastern Australian gas market. ExxonMobil supplies gas to Victoria, New South Wales, South Australia and Tasmania.

In addition, as operator of the PNG Gas Project, ExxonMobil is actively marketing gas from major greenfield gas resources in PNG into the highly competitive eastern Australian gas market. For PNG gas to reach its markets as a new competitive energy supply, a major new greenfield transmission pipeline must be developed from PNG to the Northern Territory, southern Queensland and east Australian markets (the Australian Pipeline). A consortium consisting of two subsidiaries of AGL and Petronas (APC) was chosen in 1998 through a competitive tender process to develop the Australian Pipeline.

ExxonMobil believes the development of the Australian Pipeline associated with the PNG Gas Project serves as an appropriate example to illustrate the need for expeditious reform of regulation relating to greenfields pipelines.

The development of the Australian Pipeline has highlighted the deficiencies in the National Third Party Access Code for Natural Gas Pipeline Systems (the Code) with respect to new greenfield pipeline developments in providing timely decisions, regulatory certainty and appropriate risk/reward drivers for development; all of which militate against a climate encouraging major new infrastructure investment.

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While there are major risks such as completion risk, political risk and market risk that are inherent in any major greenfield project, under the Code there is significant additional regulatory risk. This mainly due to the fact that regulated coverage of a pipeline can be determined at any point in time. If a pipeline does become covered, tariffs are likely to be reset after investment decisions are made and will then, especially in the case of a greenfield pipeline, be based on benchmarked rates of return that may not be able to adequately reflect the original investment decision and which will be set only for a five year period.

This is a significant risk both for the participants in the PNG Gas Project and APC who ultimately are underwriting major investments in the PNG Gas Project and the Australian Pipeline respectively.

ExxonMobil therefore believes very strongly that appropriate changes should be made to the Code to enable greenfield pipelines to obtain regulatory certainty for a significant initial period before such investments are made.

In the Paper the MCE recommends changes to the Code that specifically aim at providing greenfield pipelines with options for provision of timely regulatory certainty namely;

Measure 1: Binding No Coverage Ruling

Allowing a greenfield pipeline developer to apply to the AEMC for an upfront binding 15 year no coverage ruling for approval by the designated Minister following assessment and recommendation by the AEMC.

Measure 2: Price Regulation Holiday

Allowing a greenfield pipeline developer to apply to the Minister for a 15 year price regulation holiday where the all requirements of the Code would apply except price regulation.

ExxonMobil strongly supports both of these proposals and believes that their implementation will provide appropriate avenues for greenfield pipeline developers to seek and obtain regulatory certainty to facilitate investment decisions. ExxonMobil therefore believes the timely implementation of these proposals will have a positive impact on infrastructure investment and competition.

Yours faithfully,

N M Heath
Gas & Power Marketing Director

