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7 April 2004

Application of the Industry Levy to
fund the AER and AEMC
Discussion Paper March, 2004

Industry Levy
C/- MCE Market Reform
Department of Industry, Tourism & Resources
GPO Box 9839
CANBERRA ACT 2601

Dear Sir/Madam,

I refer to the MCE discussion paper for the Application of the Industry Levy to fund the AER and AEMC dated March 2003 and provide the following comments.

ExxonMobil is a producer of gas from the Gippsland basin in Victoria through its subsidiary Esso Australia Resources Pty Ltd. ExxonMobil Gas from Gippsland is supplied to customers in Victoria, New South Wales, Tasmania and South Australia. In addition, ExxonMobil is seeking to become a gas producer in PNG and the Carnarvon Basin offshore Western Australia. Our PNG marketing group is actively marketing gas into the north and east of Australia which will require the development of a major new greenfields transmission pipeline from PNG to the southern Queensland and eastern Australian markets. Our marketing focus for Carnarvon Basin gas is on export LNG sales and on future domestic gas sales opportunities in Western Australia that will be reliant on the existing transmission and distribution infrastructure and its efficient future development.

As a major Australian gas producer and participant in the Australian gas industry, ExxonMobil has a significant interest in the restructuring of the energy regulatory environment. ExxonMobil believes that critical to the supply of gas to the Australian markets is an efficient and competitive energy industry and an efficient regulatory environment.

ExxonMobil commends the COAG moves to restructure the regulatory environment and to remove duplication with the formation of the AER and AEMC. However, ExxonMobil is not persuaded that directly levying industry is an appropriate mechanism for funding these new central regulators. In particular, it seems inappropriate for a body charged with regulating and potentially taking legal action against companies to be reliant on those same organisations for its funding.

ExxonMobil believes that if an industry levy is to apply its structure should be based on the following key principles;

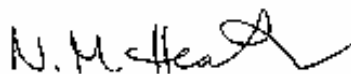
- Costs should be determined through a rigorous transparent forward budgeting process. Users must be satisfied as to appropriateness and efficiency.

- Built into any determination of costs should be a commitment to ongoing regulatory cost reduction.
- Budgeted costs should be firm for the period to which they apply to ensure market certainty. The period for budgeting should be long enough to provide predictability and to minimise costs - a period of 5 years may be appropriate.
- Budget over-run costs during the period should be funded directly by Government and not by industry. Budget under-runs should be allocated to the next period to minimise cost pass-on during the next period.
- Budgeted costs should be allocated to each energy industry subset (eg. electricity retailer, electricity transmission business, electricity distribution business, gas retailer, etc.) regulated by the AER and AEMC, on a basis proportionate to the regulator work effort related to that industry subset. Within each subset of common participants the costs should be fairly allocated to individual participants on an energy basis.
- Duplication of regulatory processes by other Federal bodies and individual State regulators must cease and the fees imposed on industry for such duplicated services must be removed.
- Finally, as raised within the discussion paper, it is vital that any new levy imposed on energy businesses be able to be passed through to the end consumer within the competitive market. A key stopple for such pass through is the propensity for State Government imposed retail price caps that are applied to both gas and electricity. ExxonMobil is fundamentally opposed to such price caps as distorting normal market forces and competition, and discouraging investment. Such price caps must be removed to enable the market to efficiently and competitively pass through any new levy to end consumers.

ExxonMobil thanks the MCE for the opportunity to comment on the discussion paper for the application of the Industry Levy to fund the AER and AEMC and will look forward to commenting further as the MCE develops more detailed proposals.

If you have any questions regarding this submission or would like to arrange a time to discuss it further please do not hesitate to contact me on (03) 9270-3457 or you can contact Nigel Collins on (03) 9270-3682.

Yours sincerely,



N. M Heath
Gas & Power Marketing Manager