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**Richard J Owen**  
Chairman



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Mr Rod Sims  
Chairman  
Australian Competition and Consumer Commission  
By email: [gas.inquiry@accc.gov.au](mailto:gas.inquiry@accc.gov.au)

Dear Mr Sims

Esso Australia Resources Pty Ltd (EARPL), an affiliate of ExxonMobil Australia Pty Ltd, welcomes the opportunity to provide feedback on the Australian Competition and Consumer Commission's (ACCC) *East Coast Gas Inquiry Issues Paper* (the Paper).

The Paper details a range of issues for public comment. EARPL does not propose to respond to each one, but only to those that are of direct interest to our operations.

The Gippsland Basin Joint Venture (GBJV) between EARPL and BHP Billiton Petroleum (Bass Strait) Pty Ltd has been providing a reliable source of base and swing capacity to the market for over 45 years. The GBJV currently supplies around 40 per cent of east coast domestic gas demand.

The GBJV has sold all of its available developed resource out until the end of 2017, and is now actively marketing its gas from 2018 until end-2020 to both existing and potential new customers. This has involved multiple meetings with large and small gas retailers, as well as large industrial users, and we now have a number of completed sales agreements and remain in discussions with others. Some of these finalised gas supply agreements have been publicly announced, and include agreements with customers such as Origin, AGL, Lumo and Orica.

The GBJV has undertaken a significant amount of work to optimise output from its existing fields and facilities and, as a result, 2017 will be the highest contractual commitment in the history of the Gippsland Basin. While the GBJV would like to provide additional supply to the market, ultimately its firm gas sales are limited by the capacity of its facilities, which are fully committed until 2017.

To encourage future multi-billion dollar gas developments, the market needs to continue to provide the necessary investment signals tied to free market fundamentals. While there are proposals put forward to develop market liquidity, EARPL believes the market is already largely working effectively. It is questionable if full liquidity can ultimately be achieved in the east Australian market given its relatively small size and few market participants. Regardless, it is important to remember that while liquidity improves price transparency, prices are set on the basis of supply, demand and alternate cost of development. All three of these elements are impacted by uncertainty introduced through an unpredictable market environment (moratoriums, reservations, taxes).

EARPL believes there are potential further resource investments in eastern Australia. Their commerciality is dependent on reducing fiscal and regulatory uncertainty to offset the investment challenges associated with prospects that are more complex, higher risk and lower resource quality.

An example of this opportunity and challenge is the Kipper Tuna Turrum (KTT) project currently under development. The KTT project will bring online 1.6 trillion cubic feet (TCF) of gas. This however, has come at a significant cost, with total investment expected to exceed \$5 billion (without accounting for costs of existing infrastructure and operational costs). Historically, Gippsland Basin gas production has come as a by-product from oil development or from low complexity, high resource quality reservoirs. New fields, like those developed by KTT, are smaller, deeper and have higher concentrations of impurities (mercury/CO<sub>2</sub>) reducing the overall resource quality and increasing costs of development and production. At the same time Australia is a high cost investment environment, with lower labour productivity relative to other OECD nations, leading to significantly higher project and operational costs.

The primary challenge faced by the east coast market is one of supply and supply timing. There are a range of changes that could be made to improve supply availability. This could include lifting moratoriums on the exploration and development of new potential supply sources, as well as the development and improved use of storage and transportation infrastructure.

In light of this challenge, joint marketing by the GBJV continues to be key to ensuring the joint venture partners are aligned on the investment decisions to underpin the next phase of development of GBJV supply sources, which are increasing in complexity, cost and risk. In addition, the illiquid and shallow nature of the eastern Australian market and lumpy nature of demand continues to make joint marketing by the GBJV necessary. We note that joint marketing by the GBJV was the subject of a review by the ACCC in 2010, following which no changes were required.

Storage is a mechanism that can deliver flexibility to the market to help manage seasonal demand. GBJV currently provides significant flexibility to the east coast gas market, providing swing capacity by ramping up and down its facilities. In the future, GBJV's ability to efficiently manage its facilities will be a key enabler to bring new undeveloped resources to the market; however the nature of these undeveloped resources may impact on GBJV's ability to provide swing at historical levels. The development or expansion of underground storage in eastern Australia could provide the market with an alternative way to provide swing.

In order to effectively use existing and new storage facilities, market participants need access to both storage and transportation infrastructure on reasonable and certain terms. EARPL understands that currently, users are paying tariffs for both off-peak transportation to the storage facilities and significant firm peak transportation from the storage facilities to end-users, making storage relatively expensive.

One way to achieve improved access to transportation infrastructure is through the development of interruptible 'as available' transportation tariffs at a discount to firm tariffs when all available pipeline firm capacity has been contracted, effectively allowing access to unused pipeline capacity. Further, the experience of EARPL affiliates in other jurisdictions is that a mechanism is required to increase transparency and encourage secondary trading. EARPL welcomes the recent improvements in the provision of pipeline capacity information on a voluntary basis, including real time actual flow information and day-ahead and medium term outlook for available pipeline capacity, as well as the development of standard terms and conditions for available capacity.

EARPL would welcome the opportunity to expand on these and other issues, and EARPL will continue to work with the ACCC in responding to requests for information as well as any requests to attend private hearings.

Yours faithfully

