ExxonMobil Australia Pty Ltd
ABN 48 091 561 198
Level 9, 664 Collins St
Docklands, Victoria 3008
GPO Box 400C
Melbourne, Victoria 3001
613 9261 0000 Telephone
613 9261 0072 Facsimile

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COAG Energy Council
GPO Box 787
Canberra ACT 2601

By Email: gas@environment.gov.au

Dear Sir/Madam,

Re: Consultation RIS – Gas Transparency

Thank you for the opportunity to provide a response to the COAG Energy Council's 'Measures to Improve Transparency in the Gas Market – Consultation'.

This submission is provided by ExxonMobil Australia Pty Ltd (**ExxonMobil**) and its affiliated companies. ExxonMobil's major gas-related Australian interests and activities include:

- An operating-participation interest in two Gippsland Basin joint ventures – Gippsland Basin Joint Venture (**GBJV**) and Kipper Unit Joint Venture (**KUJV**) – which include off-shore oil and gas producing assets and on-shore storage, processing and distribution assets
- Marketing natural gas, natural gas liquids and crude oil
- A 100% interest in off-shore Victorian exploration acreage
- A non-operating interest in the Western Australian Gorgon LNG project
- Full ownership and operation of the Mobil Altona Refinery, a gas-consuming fuels refinery located in the inner-west of Melbourne

Background comments:

- ExxonMobil is supportive of the submission of Australian Petroleum Production and Exploration Association (**APPEA**).
- Some of the information provided in this submission is commercially sensitive and is provided on a commercial in confidence basis. These comments have been tagged as such and we would require redaction of this content prior to publication of this submission.

ExxonMobil’s comments and observations on the Regulation Impact Statement are as follows:

1. Reserves and resources reporting

In February 2019, ExxonMobil provided feedback in response to the ACCC’s ‘Gas reserves and resources reporting framework’ consultation paper[1]. The views expressed at that time remain unchanged.

While the ACCC took some stakeholder feedback into account in developing its ‘Framework for the consistent reporting of natural gas reserves and resources’[2], ExxonMobil remains particularly concerned with the following:

- By-field reporting of reserves and resources:
    - ExxonMobil does not agree that reporting should be at a field level. While geologic and engineering data are assessed at a reservoir and field level, aggregation of reserves data by basin or larger level reduces the range of uncertainty around the estimated reserves volumes. Normal fluctuations up and down for field level reserves are statistically muted by aggregation and will show a better picture of the overall reserves available.

      With this in mind ExxonMobil would like to draw attention to four areas of concern with respect to publication of field-level Proved (P90) and Probable (P50) reserves:

        1. Inherent uncertainty in field-level estimates: as noted above, Probable reserves are estimates and by their nature are equally likely to increase or decrease over the life of a development. A wider range of variance is expected with increasing granularity (or decreasing degree of aggregation)
        2. Potential for misuse: As result of item 1, increasingly granular public disclosure provides the potential to misuse or misrepresent investment opportunity or other commercial activities
        3. Competitive issues: Field-level data may limit individual equity owner’s competitive advantage (such as first mover advantage), may unnecessarily expose them to future liability, and may reduce the opportunity for future trade / sale, or other commercial negotiation by establishing a publicly posted value as an anchor point. Further, individual investors may be misled by not understanding the nature of a P50 value as described previously.
        4. Additional regulatory burden: In some cases companies may not estimate Probable reserves by field on the basis that it is not necessary for internal reporting requirements. Any requirement to now publish Probable reserve data by field would therefore create an additional regulatory burden on companies, and in the case of smaller entities which do not have the internal expertise, may also impose significant additional specialist consultancy costs. Additional costs reduce profit margins, thereby limiting companies’ ability to reward shareholders and employ workforce in pursuit of new opportunities

[1] https://www.accc.gov.au/system/files/Esso.pdf

[2] https://www.accc.gov.au/system/files/Framework for the consistent reporting of natural gas reserves and resources_0.pdf

- The requirement to report 3P reserves:
  - ExxonMobil does not maintain a database of 3P reserves and so is currently unable to provide these data. Developing a data base to curate and track 3P reserves would materially increase costs and be burdensome for the organization without equivalent benefit for market participants. 3P reserves estimates could be very misleading as they are a high-side outcome. More useful to prospective investors / customers is 1P reserves estimates which represent a high confidence estimate of future produced volumes. Like 3P reserves estimates, 2P estimates carry more uncertainty than 1P and can also mislead investors / customers as they are equally likely that the outcome will be less than or greater than the estimate provided.
- Disclosure of price forecasts for uncontracted reserves
  - ExxonMobil remains strongly opposed to the use and disclosure of internal price forecasts for uncontracted reserve estimates as it would involve disclosing highly sensitive corporate assumptions relating to future expectations of – amongst other things – international crude prices and Asian LNG prices
  - Instead, ExxonMobil continues to recommend use of a mandated common price assumption as this is a common basis for all producers to use and allows common comparison across companies

<u>2. Reporting Producers' Actual Cost of Production</u>

With reference to the proposal that:

"Producers would be required to report their actual cost of production (by field) … to AEMO for publication on the Bulletin Board" (RIS, pg 59)

ExxonMobil has the following comments:

- ExxonMobil is strongly opposed to this proposal as it will impose significant additional costs and will result in publication of data that would potentially mislead gas buyers
- The nature of ExxonMobil's Gippsland Basin operations is that much of its infrastructure is integrated:
  - Offshore, there are 23 offshore platforms and installations and a network of 600km of underwater pipes used in the production of oil and gas[3]. Common assets are used to transport raw gas from multiple fields on-shore.
  - On-shore processing occurs through an integrated processing system comprised of a gas conditioning plant and three gas processing plants

  By-field cost estimates will require development of cost allocation rules to assign common asset costs to each field. The subjective nature of any cost allocation methodology will potentially result in misleading by-field gas supply costs.
- Off- and on-shore infrastructure is used to produce, transport and process not only natural gas but also crude oil, condensate and natural gas liquids (ethane, propane and butane). Per the point above, cost allocation rules to apportion the costs of this shared infrastructure will potentially produce misleading by-field gas supply costs.

[3] https://www.exxonmobil.com.au/Energy-and-environment/Energy-resources/Upstream-operations/Bass-Strait

- Annual by-field operating expense data are often skewed by large, non-repeat maintenance activities. Accordingly, historical cost data are not a reliable predictor of future costs.
- Disclosure of by-field gas supply costs is not prevalent in comparable jurisdictions
- Focusing on 'cost of production' provides an incomplete view of the total costs incurred by oil and gas producers. In particular, it ignores the significant costs associated with unsuccessful exploration activities, such as ExxonMobil's 2018 Baldfish and Hairtail exploration drilling which cost more than A$100M and did not identify commercial quantities of hydrocarbons.

<u>3. Gas swap prices and Mandatory listing of gas supply requests on Bulletin Board or Gas Supply Hub (**GSH**)</u>

With reference to the proposals that:

"Parties entering into gas swaps that provide for the physical delivery of gas on a firm basis and have an MDQ of at least 1 TJ/day would be required to report the price and other key terms to AEMO for publication on the Bulletin Board." (RIS, pg 59)

and;

"Market participants would be required to list all requests for gas and offers to supply gas that meet a specified reporting threshold [> 10 TJ / year] on the Bulletin Board or the GSH." (RIS, pg 61)

ExxonMobil has the following comments:

- ExxonMobil does not support these recommendations as the reporting requirements may lead to a reduction in transactional activity and hence reduce market liquidity.
- The disclosure of gas swap, offer and other buyer-seller interaction information can be commercially disadvantageous to buyers and / or sellers. If this impost is not outweighed by the benefit of the underlying transaction, the expected price discovery and search cost improvements may come at the expense of lower gas swap and other transactional activity than would otherwise have occurred. That is, an unintended consequence of this proposal may be to reduce market liquidity.
- The recommendations would be administratively burdensome. If the proposals are adopted, consideration should be given to increasing the reporting thresholds, particularly for requests and offers for gas. ExxonMobil proposes that 500 TJ / year – the volume threshold ACCC has used in their 2017-2020 Gas Inquiry reporting of bids and offers – is a more appropriate reporting level.

<u>4. Reporting of intra-day changes in short-term capacity outlook and nominations</u>

With reference to the proposal to:

" … [amend] the materiality threshold used for intra-day reporting [of changes in short-term capacity] on the Bulletin Board: 'a change that exceeds the lesser of 10% of the nameplate rating and 30 TJ'. (RIS, pg 93)

ExxonMobil has the following comments:

- ExxonMobil does not support this recommendation

- The purported rationale for this change is: “As currently framed, facilities with a capacity of 10-30TJ/day would never have to report a change in their short term capacity outlook or nominations, even when the capacity outlook or nominations fall by 100%.” (RIS, pg 86)
- This objective would be met by amending the criteria and materiality threshold to: “a change that exceeds the greater of 10% of the nameplate rating and 10 TJ”. Doing so in this way would avoid additional reporting obligations for larger (ie > 300 TJ) processing facilities.

5. Availability of processing capacity

With reference to the proposal that:

“Production facilities providing third party access would be required to publish a 36-month uncontracted capacity outlook.” (RIS, pg 92)

ExxonMobil has the following comments:

- ExxonMobil does not support this recommendation
- Information on gas processing plant nameplate capacity, near-term projected capacity and actual daily capacity utilized is available on the Gas Bulletin Board and the ‘supply input’ data files published in conjunction with Gas Statement of Opportunities reports
- Understanding of available processing capacity is best achieved by direct interactions between producers and processors:
  - Given the limited number of gas processing facilities, and the typical desire of gas extracting companies to use processing facilities that are in close proximity, the practical number of producer / processor combinations is low.
  - Processing constraints that relate to the physical characteristics of raw gas to be produced (eg CO_2 or other impurity levels) would not be adequately reflected in publication of a single processing capacity value.

6. Historic invoiced-based producer and retailer gas price series

With reference to the proposal that:

“The invoice-based producer and retailer gas price series would continue to be published by the AER once the ACCC’s current Inquiry ceases.” (RIS, pg 60)

ExxonMobil has the following comments:

- ExxonMobil does not support this recommendation
- The ACCC is no longer publishing this information: “Throughout the inquiry, the ACCC has presented an invoiced time series, which showed average prices paid at a particular point in time under all applicable GSAs. In this report, we present a time series of average GSA prices agreed at a particular point in time. This time series better demonstrates the evolution of the market prices, because in an invoiced price series the average of prices is a lagging indicator of market prices due to the influence of prices paid under legacy GSAs.”[4]

[4] ACCC 2017-2020 Gas Inquiry, July 2019 Interim Report

- ExxonMobil agrees with the ACCC that invoiced price data – which include prices under Gas Sale Agreements that may have been agreed a decade ago – are of little value
- It is time-consuming and costly for suppliers to collate and deliver invoice information to ACCC/AER
- ACCC action indicates it does not consider this information to be of value to market participants

7. Mandatory GSOO reporting

With reference to the proposal that:

“the voluntary surveys currently used by AEMO would be replaced with mandatory surveys that market participants would be required by the NGL and NGR to complete in accordance with the information standard set out in the NGR and any procedures developed by AEMO” (RIS, pg 99)

ExxonMobil has the following comments:

- ExxonMobil does not support this recommendation as it believes AEMO already has sufficient powers to perform its relevant functions and these powers should remain within the National Gas Law rather than being devolved to AEMO procedures.
- Under Section 91F of the National Gas Law[5], AEMO already has substantial information gathering powers in relation to its role in preparing the Gas Statement of Opportunities and Victorian Gas Planning Report:

> **Subdivision 1—Market information orders and market information notices**
>
> **91F—Information gathering powers**
>
> (1) If AEMO considers it reasonably necessary to do so for the exercise of a relevant function, it may—
>
> (a) make a general market information order requiring information from persons of a class specified in the order; or
>
> (b) serve a market information notice requiring information from the person to whom the notice is addressed.
>
> (2) A ***relevant function*** is—
>
> (a) the preparation, review, revision or publication of the gas statement of opportunities; or
>
> (b) a declared system function; or
>
> (c) any other statutory function for which this Law authorises AEMO to gather information by means of a market information instrument.

- The RIS states “While AEMO does have information gathering powers in the NGL, those powers have not been used to date because AEMO must consider it reasonably necessary to exercise this power before issuing a market information order or market information notice.” (RIS, pg 124)
- This argument is unpersuasive: AEMO’s discretionary election not to exercise its powers is not sufficient justification to impose a mandatory survey regime.

[5] https://www.legislation.sa.gov.au/LZ/C/A/NATIONAL GAS (SOUTH AUSTRALIA) ACT 2008/CURRENT/2008.19.AUTH.PDF

Yours sincerely,

[signed]

Johanna Boothey
Commercial Director
Esso Australia Pty Ltd
For and on behalf of ExxonMobil Australia Pty Ltd