

Submission to Productivity Commission

Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector

Submission by ExxonMobil Australia Pty Ltd



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ExxonMobil Australia Pty Ltd is a subsidiary of Exxon Mobil Corporation. ExxonMobil Australia Pty Ltd has a number of subsidiaries with assets and operations in Australia many with names that include ExxonMobil, Exxon, Esso and Mobil. For convenience and simplicity in this submission those terms and the terms corporation, company, our, we and its are sometimes used as abbreviated references to a specific subsidiary or groups of subsidiaries in the ExxonMobil Australia Group of companies.

About ExxonMobil

ExxonMobil Australia Pty Ltd¹ ("ExxonMobil"), through its subsidiaries, Esso Australia Pty Ltd and Mobil Oil Australia Pty Ltd has been operating in Australia for over 100 years.

ExxonMobil is a substantial investor in the Australian economy and a major contributor to the wealth of the nation. Annually ExxonMobil pays around A\$800 million in taxes to local, State and Federal Governments. Our cumulative investment in Australia exceeds A\$13 billion and we provide direct employment for around 1700 people and indirect employment for many thousands more.

Enabling Economic Progress in Australia

ExxonMobil's Bass Strait (Gippsland) operations have produced almost two-thirds of Australia's cumulative oil production and almost 30 percent of Australia's gas production. Just how significant Bass Strait has been in underpinning the economic growth of Australia is seen in the following figures. Oil and gas production in Bass Strait has:

- contributed over \$200 billion to Gross Domestic Product (GDP) over its life or some \$2.2 billion per annum in nominal terms;
- has stimulated approximately 50,000 permanent additional jobs in Victoria (14,000 in regional Gippsland alone); and
- generated approximately \$300 billion in Federal Government revenues in real terms (2.1 percent of all Government revenues collected in the period).

Exxon Mobil Corporation

Globally, Exxon Mobil Corporation – the parent company of ExxonMobil Australia - is the world's largest publicly quoted oil and gas company and the world's largest corporation in terms of market capitalisation. Worldwide the company and its subsidiaries produce more than 4.5 million oil-equivalent barrels of energy resources every day from some 1600 fields and operate in over 200 countries. Exxon Mobil Corporation is also the world's largest non-government marketer of natural gas and in our global downstream business the company has interests in 45 refineries in 25 countries and over 35,000 service stations world-wide.

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Introduction

The Productivity Commission has asked industry to comment on a range of issues regarding regulatory burden on the upstream Oil and Gas industry. We thank the Commission for the opportunity to respond to its issues paper at this stage. Given the detailed response that will be provided by APPEA (to which ExxonMobil has contributed) we have constrained our comments in this submission to a few key areas of concern. We acknowledge and endorse the submission by APPEA that represents the broader view of the upstream Oil and Gas industry and responds to all the questions proposed by the Commission in its paper.

ExxonMobil fully supports an efficient regulatory system that has been developed on the basis of the balanced needs of the communities within which it operates, and an efficient and competitive business environment. To achieve this we expect regulation will be reasonable, equitable, consistently applied and properly enforced. Regulations should also be clearly expressed so as to ensure that industry understands the requirements it is to meet, while giving the public confidence that industry is adhering to sound and responsible operating practices that are consistent with Australia's national interest.

All aspects that encompass the oil and gas industry, including exploration, development and production are highly regulated by one or more of the various levels of government and their related agencies. The key areas subject to compliance within the various Federal and State legislative and regulation frameworks include:

- Health and Safety
- Environmental Protection (Energy Efficiency)
- Resource Management
- Corporate Governance
- Land access (including Native Title), and
- Various Local Government requirements

ExxonMobil's operations in Gippsland are typical of the larger scale petroleum projects currently operating in Australia and as such can be used as a model to consider the regulation of similar projects that may be developed in the future, such as those proposed off the coast of Western Australia. The Gippsland project includes offshore facilities that recover oil and gas from reservoirs located under Commonwealth waters, oil and gas pipelines that transport petroleum across Commonwealth submerged lands, State submerged lands and then finally State controlled lands before arriving at onshore processing plants located in a State jurisdiction (in this case Victoria). This mixture of jurisdictions has given rise to a large number of duplicated requirements that must be satisfied within the authority of the respective jurisdictions. While Federal and State responsibilities individually dictate the extensive approval requirements in each respective jurisdiction, given the multi-jurisdictional nature of most petroleum projects the result is that there are multiple duplicated approvals processes and many opportunities for each regulator within the separate jurisdictions to take issue with a given proposal.

Consequently, we support the proposed review to be undertaken by the Productivity Commission to review the regulatory systems that affect petroleum activities across all jurisdictions so as to improve the efficiency of both the industry and Government.

Specific Concerns/Observations

The following sections outline some areas of specific concern and observations that we believe may be of use to the Productivity Commission.

Occupational Health and Safety

We believe that since the inception of the National Offshore Petroleum Safety Authority (NOPSA) in 2005 that the offshore OHS regulatory regime has continued to evolve with greater efficiencies and effectiveness. We have reviewed the recent independent report concerning NOPSA and generally support its findings and recommendations. We support the NOPSA concept in which a single regulator provides national coverage and the onus is placed on each enterprise to develop and implement processes that meet regulatory requirements.

As onshore State based OH&S regulations mature, we would be particularly concerned by any proposal that resulted in a move towards a more prescriptive regulatory regime. We believe the current NOPSA framework that is centred on objective based regulation, encompassing appropriate risk assessment and management approaches, will continue to yield a more effective and efficient outcome for all parties. In this regard a concern we have is a discernable trend to introduce 'guidelines' that seem to add new requirements rather than clarification to existing requirements – recent examples being the 'Offshore Accommodation Standards' and 'Helicopter Standards'. Such documents should be limited to genuine guidance concerning existing requirements, and the development of such documents should be undertaken having full consultation with industry, including the workforce.

Environmental Protection and Heritage

While ExxonMobil agrees with the Productivity Commission's view that there is significant scope to improve the operational efficiency of the Environment Protection and Biodiversity Conservation Act (EPBC Act) and its interaction with State environment and planning approvals, we do not support a proposal to accredit State decisions arising from State and Territory environmental assessment processes.

We would support a proposal to create a regulatory scheme that established a single environmental assessment process to be considered by a common decision-maker, with scheme administered by a single regulatory body. Such an arrangement would remove the inefficiency of having each State maintain separate processes and resources to undertake this work. A single environmental assessment and approval process would be more efficient for industry and Government and potentially achieve a more comprehensive accreditation outcome under the EPBC Act.

Energy Efficiency, Greenhouse and Energy Reporting, and Climate Change

Currently there is an array of existing and emerging non-complimentary legislation, regulations and policies (duplicated at both the State and Federal level) that address Energy Efficiency, Greenhouse and Energy Reporting, and Climate Change. Harmonisation and streamlining of these regulations, especially in the area of energy and emissions reporting, should be a key focus area for the Productivity Commission's review as it has a high potential to achieve efficiency gains for both Government and industry and will assist all parties to achieve the desired outcomes.

The following sections present excerpts from ExxonMobil's recent submissions to government in this regard. They are relevant to the Commissioners review in that they discuss aspects of new and emerging legislation and demonstrate the duplication and subsequent potential for additional regulatory burden that has been created already, or could be avoided, as this new legislation is being developed.

Reporting under EEO, NGER and EREP's

ExxonMobil is a registered corporation under the Energy Efficiency Opportunities program (EEO) and will be required to report under the National Greenhouse and Energy Reporting (NGER) Act. ExxonMobil is strongly supportive of implementing a single reporting mechanism for greenhouse emissions and energy reporting. We also recognise that the NGER will underpin the proposed Australian Emissions Trading System (ETS) by providing guidelines for greenhouse gas emissions calculations and reporting.

As such, we are supportive of the current efforts to streamline reporting requirements under EEO with those under NGER. Moreover, we encourage the Department of Resources Energy and Tourism (RET) to go beyond the current streamlining proposal by removing the obligation to report energy use under EEO. EEO should only be used as an assessment tool to identify energy reduction opportunities. Reports to RET, if required should be largely qualitative and focus on the assessment process and the opportunities identified. All quantitative reporting of energy use should be undertaken as part of NGER reporting. This removes the duplication between EEO and NGER and substantially reduces the complication and reporting inefficiencies that occur with multiple reporting mechanisms.

As a large company, ExxonMobil's operations come under many greenhouse and energy based programs. For example, in addition to EEO and NGER, ExxonMobil is a member of Greenhouse Challenge Plus and is also required to complete energy audits through the Victorian Energy and Resource Efficiency Plans (EREP's) program. Streamlining or retiring duplicative greenhouse gas emissions reporting and reduction programs is particularly critical given the forthcoming ETS. Duplicative and overlapping regulatory requirements can confuse and confound industry's attempts to achieve the required outcomes and only add to the cost burden on business, and ultimately the costs to be carried by the community at large.

For example, in the area of energy efficiency programs Victorian, EREP regulation requires an immediate start of plans with implementation to commence in 2009. Predating the commencement of the EREP's requirement, but on a longer timeline is the

Federal EEO program. While the latter is bringing to bear world's best practice engineering teams systematically working across our facilities, the short timeline of EREP is likely to encourage a focus on superficial and premature solutions. The consequence may well be that work will then need to be redone over the next 2 years under EEO. To fully demonstrate the duplication that the industry currently faces with these programs we have constructed the following table that highlights the requirements of each program developed by the various government jurisdictions.

Current State and Federal Greenhouse and Energy Programs

Jurisdiction	Program	Energy	Greenhouse (Energy + Flare & Fugitives)	Annual Reporting	Public Reporting	Energy Audit	Action Plan
Federal	Greenhouse Challenge (via APPEA)	✓	✓	✓	✓ (industry aggregate data)		✓
	Greenhouse Challenge Plus	✓	✓	✓	✓		✓
	Energy Efficiency Opportunities	✓		✓	✓	✓	✓
	National Greenhouse and Energy Reporting	✓	✓	✓	✓		
Victoria	Greenhouse Gas Action Plan (2003-8)	✓	✓	✓		✓	✓
	Energy and Resource Efficiency Plans	✓	✓	✓		✓	✓
Corporate	Environmental Performance Reporting	✓	✓	✓			
	Environmental Business Planning	✓	✓	✓			✓

Mandatory Renewable Energy Target

The Mandatory Renewable Energy Target bill is currently being examined to expand the interim targets of the (MRET) from 2008, in line with the Government's election policy for a 20% target by 2020. While we do not comment on the technical specifics of this proposal, we acknowledge that the bill is an apparent attempt to create some certainty and continuity for those companies that have committed to supply or meet the MRET. However, when building stable regulatory frameworks, we believe it is important that policies not be considered in isolation and as such our concern is that setting a mandated target for any particular source of energy is inconsistent with pursuing the development of an ETS. At its heart an ETS is designed to allow market mechanisms to set a price for carbon emissions and thereby determine the appropriate energy mix in a carbon constrained economy. By extension of this point we believe that any mandated

target can only distort the market and as such is counterproductive to the efficacy of an ETS.

Australian Government or State and Territory Carbon Sequestration Regulation

With reference to the Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill 2008 there should be safeguards to ensure that unnecessary burdens are not created for the oil and gas sector by new Government or State and Territory carbon sequestration regulation. It is vital that a 'fit for purpose' and consistent legislative and regulatory framework across all Australian jurisdictions is developed.

Conclusion

The oil and gas industry is large, complex and has significant expansion capability. Extracting the maximum economic benefit from Australia's resources requires effective and non-duplicative regulation that supports industry with timely responses and well balanced requirements.

ExxonMobil Australia thanks the Productivity Commissioner for the opportunity to provide input to its review of Regulatory Burden on the Upstream Petroleum Sector. We would wish to extend to your office any further assistance you may require as you proceed with your review of this important matter.