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September 10, 2002

Mr Michael Walsh
Regulatory Affairs - Gas
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

ACCC Draft Decision - GasNet
Australia Access Arrangement
from January 1, 2003

Dear Michael,

Further to your letter of August 21 providing the ACCC draft decision for the GasNet Australia Access Arrangement from January 1, 2003, we like to comment as follows:

- We note that the ACCC's draft decision provides for the rolling in of the South West Pipeline (SWP) assets into the overall non-SWP asset base justified partially on economic feasibility and partially on system wide benefits.

We are disappointed with this draft decision as the roll-in of the SWP costs with the non-SWP assets has a distorting effect on the proper role of price signals to ensure market participants have the ability and incentive to select the lowest cost mode for meeting the required delivered gas supply.

We note that with the roll-in of the SWP assets with the non-SWP assets in its draft decision the ACCC;

1. has concluded that quarantining of the K factor is too complex but has limited K factor tariff increases to 1%,
2. has required GasNet to include conditions that ensure the SWP tariff remains no less than around 110% of the Longford to Dandenong tariff, and
3. has required GasNet to include a partial redundant capital policy.

While these initiatives may help to limit the effect of the potential cross-subsidisation of the SWP by non-SWP assets we do not believe they go far enough as any revenue shortfalls affecting the SWP should be effectively quarantined.

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We note that the ACCC has rejected Gas's proposed reduction of the expected economic life of the Longford-Dandenong pipeline from 2030 to 2023.

We support this decision, although do not understand why the SWP economic life should be considered longer than that of the Longford-Dandenong pipeline. We believe an economic life of 2030 for the Longford-Dandenong pipeline to be conservative with an even longer life supportable through continued utilisation due to;

- a) significant exploration activities that are being conducted in the Gippsland Bass Strait region with potential for new or additional reserves to be found,
- b) interconnection to other markets via the EGP and TGP for other sources of gas well beyond the depletion of any Gippsland gas fields, and
- c) future potential gas storages utilising depleted reservoirs in the Gippsland Bass Strait region.

If you have any questions regarding the issues raised in this submission please contact Nigel Collins on 03 9270-3682 or my self on 03 9270-3388.

Yours sincerely,



Frank Slebos
Gippsland Gas Marketing Manager
Esso Australia Pty Ltd
for and on behalf of
Esso Australia Resources Pty Ltd