Abatement Incentives Discussion Paper

Submission by ExxonMobil Australia Pty Ltd

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Executive Summary

- ExxonMobil recognizes that the risks of global climate change from increases in atmospheric greenhouse gases (GHG) to society and ecosystems may prove to be significant.

- Our approach in our operations is to support economic actions now to improve efficiency and reduce emissions. Globally ExxonMobil Corporation and its subsidiaries continually identify opportunities to improve energy efficiency at our refineries and plants around the globe. Since 2000 we have increased our energy efficiency by up to 20 per cent with an associated cost saving of approximately US $750 million.

- As a result of these actions we have avoided the emission of about 8 million tonnes of greenhouse gasses which is roughly the equivalent to removing 1.5 million cars from the roads.

- ExxonMobil believes that the key question that policy makers need to address is not what incentives need to be put in place to encourage early action (as it is already occurring and is rapidly advancing in the face of a future carbon price) but to what extent will / can system design of an Emissions Trading Scheme (ETS) act as a disincentive to continued abatement. In this context ExxonMobil believes that Early Action Credits may act as such a disincentive.

- It is our contention that the proposal to provide positive incentives via credit for early action (on a project by project basis) will increase complexity, expand administrative discretion and undermine the transparency which is requisite for the integrity of a verifiable reporting scheme. For these reasons ExxonMobil believes early action credits could lead to greater gaming of the system and be counterproductive to the intent of ensuring ongoing abatement.

- ExxonMobil believes that practical issues also render the consideration of early action credits difficult. Indeed until an agreed reporting methodology is in place and until such time as firms are reporting against this methodology, discussion of abatement incentives is premature and is only likely to delay scheme start up in 2010.

- ExxonMobil also has concerns about the proposed definition of “additional abatement” which goes beyond "business as usual". The core issue is the reduction of GHG rather than how the reductions occur. The test of “additional abatement” will add to administrative burden in both the private and public sectors, further complicate the process and likely delay project implementation while government approvals for every project business wants to put forth are obtained.

- Given this, ExxonMobil recommends the government and industry put its collective efforts on developing an accurate basis for emissions inventory, reporting and development of the overall ETS over the next 3 years. Focus on an interim incentive scheme to provide further subsidies is likely to be a distraction to this objective.

Introduction

Globally, Exxon Mobil Corporation is the world's largest publicly quoted oil and gas company and the world's largest corporation in terms of market capitalisation. World-wide the company and its subsidiaries produce more than 4 million oil-equivalent barrels of energy resources every day.

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 40 refineries in 20 countries and over 30,000 service stations world-wide.

[1]ExxonMobil Australia Pty Ltd ("ExxonMobil"), through its subsidiaries, Esso Australia Pty Ltd and Mobil Oil Australia Pty Ltd has been operating in Australia for over 100 years and is the largest integrated oil and gas company with a total investment of over A$16 billion.

ExxonMobil is a major producer of oil and gas and a marketer of petroleum products in Australia. Through our operations most notably in Bass Strait, we have produced approximately two-thirds of the country's cumulative oil production and almost one-third of gas production.

In our downstream business we have a network of 800 branded Mobil service stations and operate the Altona Refinery. In addition, ExxonMobil is seeking to become a major producer of gas in the Carnarvon Basin off Western Australia.

Background

ExxonMobil understands that the Department of Prime Minister and Cabinet wants to canvass policy options which provide a positive incentive for greenhouse abatement if the Government deems this appropriate. Furthermore, the Department is now seeking public comments with respect to this item.

ExxonMobil's comments on this paper recognise that the consultation process and discussion paper is not necessarily reflective of government policy. In this context while ExxonMobil welcomes the opportunity to provide comment we are mindful of this fact and the position of the new government to implement an accelerated timetable for an Australian emissions trading scheme.

[1]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.

Managing Greenhouse Gas Emissions

At ExxonMobil, we take the risk posed by rising GHG emissions seriously and are taking action. Our scientists and engineers are working to reduce GHG emissions today, while supporting the development of new technologies that could significantly reduce emissions in the long term. Our actions focus on continually improving energy efficiency at our sites and monitoring and reporting our activities and results.

Reporting Greenhouse Gas Emissions

ExxonMobil is committed to reporting greenhouse gas emissions from our operations, and we have reported our emissions globally since 1998 – and from our Australian operations since 1997.

Calculating and comparing GHG emissions globally is complex, not least because:

- Emissions from petroleum production and refining operations can vary widely due to differing geological circumstances, natural resource characteristics such as sulfur levels in crude oil, and the range of end-product specifications required in different regions, countries, or even local markets.

- On average, about 87 percent of petroleum-related GHG emissions are produced by end users, versus 13 percent by petroleum industry production and manufacturing operations. The emissions produced by burning specific fuels are well-known – for example, standard gasoline and diesel fuel emit 2.4kg and 2.7kg per litre, respectively. But actual end-user emissions will depend on factors such as vehicle choice, travel habits, and energy-efficiency efforts in businesses, homes, offices, and vehicles.

- The supply chain for crude oil from production to product marketing involves numerous changes of ownership such that approximately 20 percent of the crude oil we refined in 2006 came from our own production, and about half of the fuel products that we produced were sold to other companies who in turn sell them to others.

In the Australian context the complexity in reporting emissions is made even greater by virtue of the different reporting schemes (and methodologies) that currently exist at the state and federal level. For example ExxonMobil is currently mandated to report emissions by site to the Victorian Environmental Protection Authority and to report to the Australian Greenhouse Office though the Greenhouse Challenge Plus. Each of these programs utilizes differing methodologies for the reporting of greenhouse emissions.

This variation in methodologies is further complicated by the fact that our internal calculations are based on global benchmarks which utilize the techniques and emissions factors provided in the internationally endorsed *Compendium of Greenhouse Gas Emission Estimation Methodologies for the Oil and Gas Industry* and the *Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions* (International Petroleum Industry Environmental Conservation Association). Neither of these sources forms the basis for reporting for the state or federal schemes.

Against this background ExxonMobil strongly supports the proposal to use verified emissions data from a mandatory national scheme as proposed under the new National Greenhouse and Energy Reporting (NGER) Act. The strength of this bill is that it provides for a single streamlined national scheme and data source and overrides state based schemes that utilize different methodology and reporting guidelines. ExxonMobil has provided separate comment on the draft regulations to underpin this bill.

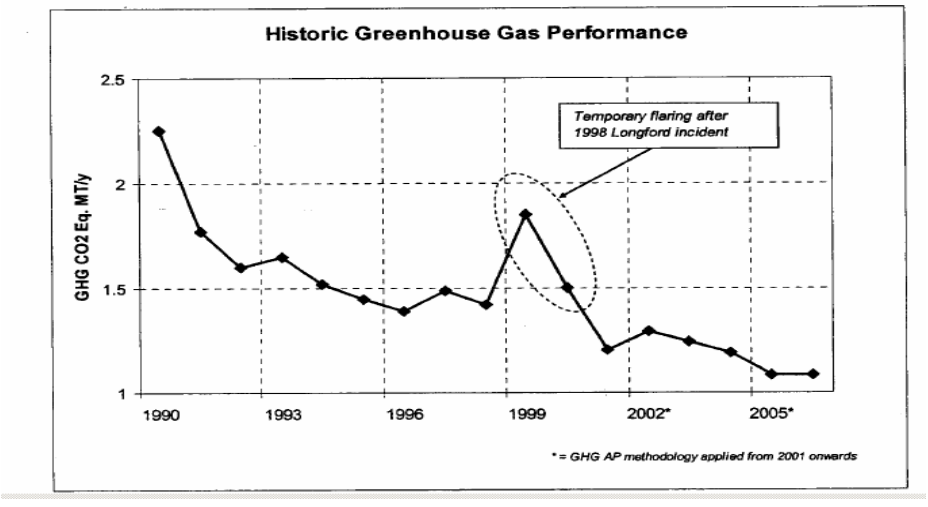
Energy Efficiency & Emissions Abatement

Using our Global Energy Management System (GEMS) and Production Operations Energy Management System (POEMS), we have identified opportunities to improve energy efficiency at our plants around the globe by up to 20 per cent.

We have implemented more than half of these opportunities, with associated cost savings of approximately US $750 million worldwide. As a result of these actions we have avoided the emission of about 8 million tones of green house gasses which is roughly the equivalent to removing 1.5 million cars from the roads. We continue to implement a range of operational and facility improvements, conduct targeted research and development of energy saving technologies and apply technical innovations in our projects.

In Australia, greenhouse gas emissions for our upstream operations have been reduced by nearly 28% since 1990. In our downstream refining business we have also recorded an 18% reduction in emission levels for the same period. At Longford we have achieved reductions in emissions of over 50 per cent or 1 million tonnes per annum since 1990.

: Longford Plant Historic Greenhouse Gas Performance



From our actions it is clear that Exxon Mobil Corporation and its subsidiaries has long focussed on improving energy efficiency and managing emissions at our sites. We do this because we recognize that in doing so it is not only good environmental practice but it is also good commercial practice.

ExxonMobil Position on Abatement Incentives Policy

What the preceding observations demonstrate is that there is significant potential to capture large cost savings from investment in energy efficiency measures. As such ExxonMobil believes that the market currently provides commercial signals to facilitate business action to undertake greenhouse gas abatement. In fact as noted in the discussion paper, improving energy efficiency through abatement activities has been (and continues to be) pursued by the business sector voluntarily.

While recent legislative initiatives from Federal and State Governments (ie EEO and EREP) have sought to 'help' industry identify energy efficiency opportunities, or in Victoria's case actually mandate energy efficiency investments, for the most part such initiatives only attempt to duplicate business processes that ExxonMobil already undertakes on a global basis.

It is therefore critically important that Governments recognize that producers, refiners, distributors, and end users in the chain are best placed to take responsibility for managing and accounting for the emissions they generate. As such we do not believe that Government mandated energy efficiency programs, abatement incentives / subsidies, are necessary to ensure business undertakes cost savings measures through abatement activities.

Early Action Credits & Positive Incentives

The key question that policy makers need to address is not what incentives need to be put in place to encourage early action (as clearly this is already occurring and is continuing in the face of a future carbon price) but to what extent will / can ETS system design impact the rational commercial behaviour of firms and act as a disincentive to continued abatement. In this context ExxonMobil believes that Early Action Credits may act as such a disincentive.

It is our contention that the proposal to provide positive incentives via credit for early action (on a project by project basis) will increase complexity, expand administrative discretion and undermine the transparency which is requisite for the integrity of a verifiable reporting scheme. For these reasons ExxonMobil believes early action credits could lead to greater gaming of the system and be counterproductive to the intent of ensuring ongoing abatement.

The complexity of system design and ability to potentially have gaming of the system is also expanded through the introduction of the additionality concept for the purposes of defining credits or 'beyond business-as-usual'. The differentiation of "business as usual" or "additional" abatement requires regulators to identify abatement measures (on a case by case project basis) that go beyond energy efficiency measures or what would normally be commercially viable. The use of such concepts for the purpose of defining credits is arbitrary

by nature and could lead to subjective judgment by government for what is considered commercial for each sector or even each plant.

ExxonMobil also believes that practical issues also render the consideration of early action credits difficult. Indeed until an agreed reporting methodology is in place and until such time as firms are reporting against this methodology, discussion of abatement incentives is premature. Given the length of time it took in Europe to establish adequate reporting methodology, reliable inventories and for all firms to be reporting to the prescribed levels, it is unlikely that any such framework could be put in place in Australia prior to scheme start up in 2010. Such a scenario renders consideration of early abatement incentives a moot point.

However, if pre-regulatory credit is to be given, than the "beyond business as usual" limitation should be rejected. Any entity that takes steps to reduce emissions during the pre-regulatory period should be recognized as long as the abatement has "actually occurred and is permanent, measurable and verifiable." This change would avoid the additional complexity, uncertainty, and administrative burden inherent in the proposal.

Offset Credits

ExxonMobil supports the development of streamlined protocols for offset projects to come into effect when the ETS is in operation. We believe to offer offset credits as a positive incentive in the pre-regulatory period without an appropriately established methodology for verifying emissions would undermine system integrity and increase the risk of gaming.

Ensuring firms will "not be disadvantaged"

Permit allocations for compensation or addressing TEEI status

ExxonMobil supports the proposal that free permit allocations be made to avoid prejudicing the competitiveness of trade-exposed, emissions-intensive (TEEI) entities and to provide one-time compensation to firms facing a disproportionate loss as a result of the introduction of an emissions constraint. It is however critical that assets which will be given free permits for disproportionate losses and those which are trade exposed are identified as soon as possible.

In this way the burden of the price cap to be imposed can be transparently assessed by industry and input into future capital investments related to improving energy efficiency and abatement. ExxonMobil also retains the strong view that major petroleum projects (i.e. LNG) and refineries are trade exposed industries that will suffer significant competitive disadvantage if they have a carbon constraint placed upon them unilaterally.

Single streamlined national scheme

ExxonMobil supports the proposal to use verified emissions data from a mandatory national scheme as proposed under the new National Greenhouse and Energy Reporting (NGER) Act. The strength of this bill is that it provides for a single streamlined national scheme and data source and overrides state based schemes that utilize different methodology and reporting guidelines. However development of a baseline year will be critical for the determination of the no disadvantage test. To this end ExxonMobil supports the compilation of multiple years of emissions data using consistent methodologies for determination of baseline levels.

Sources of data outside of NGER

Given the intent of the NGER legislation, it is however concerning that the discussion paper raises the prospect that the regulator will supplement the data used for verifying emissions by drawing on other 'relevant sources' of data where this would assist in ensuring firms receive an appropriate allocation of permits. This seems counterproductive to the intent of the bill and can only lead to a more complex system where there is greater scope for administrative discretion and less certainty for industry. For these reasons ExxonMobil supports the development and use of a single data source and agreed reporting methodology under the NGER.

Initial arrangements - approval via Greenhouse Friendly

If early action credits were pursued ExxonMobil does not support the use of the Greenhouse Friendly program to provide the initial administrative mechanism for approving early action credits. This would require a submission through this program for every action that is taken to be accredited. While potentially appropriate for major projects it may be overly burdensome for the multitude of smaller actions that firms are likely to take and would therefore increase complexity unduly. ExxonMobil believes there should also be sufficient flexibility for companies with complex industrial processes utilising fuels of differing compositions to advise on the best calculation methodology to use for assessing projects.

Transitioning early action credits into the emissions trading scheme

As noted ExxonMobil does not support early action credits. However if any pre-regulatory credit is to be given than any entity that takes steps to reduce their emissions during the pre-regulatory period should be recognized and have transitioning arrangements for ETS start up. The transitioning arrangements would have to be built on the principle that abatement meets the criteria of "actually occurred, permanent, measurable and verifiable."

International Offsets

ExxonMobil supports development of internationally consistent standards for the development of such mechanisms. We note that the current Kyoto framework on recognition of international offsets (including CDM offsets at this time) is cumbersome, has been subject to serious effectiveness criticisms and is inadequate as it does not recognize key items like carbon capture and storage projects.