

28 July 2008

Mr Mike Buckley  
General Manager  
Network Regulation North Branch  
Australian Energy Regulator  
P O Box 1199  
Dickson ACT 2602

Dear Mr Buckley

**RING FENCING COMPLIANCE REPORT**

In accordance with Central Ranges Pipeline Propriety Limited's obligations under Section 4.13 of the National Third Party Access Code for Natural Gas Pipeline Systems (the Code), please find enclosed its 2007 - 2008 Ring Fencing Compliance Report for the Central Ranges Pipeline Pty Ltd.

The Central Ranges Pipeline Pty Ltd commenced operating the transmission pipeline in August 2006. Practical Completion under the EPC contract was declared as being effected on 31 December 2006 and the final handover of the pipeline to the Operation and Maintenance Contractor, Alinta Asset Management took effect from 1 April 2008.

Yours sincerely



**Rostislav Piffi**  
**Chief Executive Officer**



## STATEMENT OF COMPLIANCE

Statement of Compliance for Central Ranges Pipeline Proprietary Limited (Central Ranges Pipeline) for the financial year 2007 - 2008.

1. Attached is the annual Ring Fencing Compliance Report for the year ended 30 June 2008. Central Ranges Pipeline has not varied the Ring Fencing Compliance Report or Statement of Compliance from the original pro-forma reports provided by the ACCC in previous years other than to provide the specific information required.
2. Central Ranges Pipeline is not aware of any breach of any of the obligations listed in 4.1 of the Code other than information detailed in this report.
3. Central Ranges Pipeline has maintained a compliance program during the relevant period that ensures that:
  - (i) Appropriate internal procedures have been established and maintained to ensure compliance with the obligations in Section 4.1 of the National Third Party Access Code for Natural Gas Piping Systems (the "Code").
  - (ii) An accurate assessment of these procedures has been made.
  - (iii) The Chief Executive Officer of Central Ranges Pipeline is made aware of any breaches of the ring fencing obligations.
  - (iv) During the reporting period, there have been no breaches of the minimum ring fencing obligations.
  - (v) The compliance program is reviewed regularly as necessary.
4. The Board of Directors of Central Ranges Pipeline approved this report on 23 July 2008.

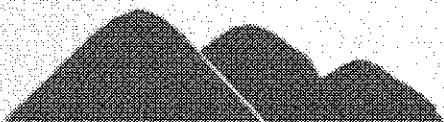
Signed by:

**Rostislav Piffi**  
Chief Executive Officer

Date: 23/7/08

**Mark Rogers**  
Director

Date: 23<sup>rd</sup> July 2008



## **RING FENCING COMPLIANCE REPORT**

Ring Fencing Compliance Report for Central Ranges Pipeline Proprietary Limited (Central Ranges Pipeline) for the financial year 2007 - 2008.

### **Compliance with minimum ring fencing obligations**

Central Ranges Pipeline submits this report under Section 4.13 of the National Third Party Access Code for Natural Gas Piping Systems (the "Code"). The report describes the measures taken to ensure compliance with Central Ranges Pipeline's obligation under Section 4 and provides an accurate assessment of the effect of these measures.

Central Ranges Pipeline will, pursuant to Section 4.14 of the Code, notify the AER Board Member immediately on becoming aware of a breach (or potential breach) of its obligations under Section 4 of the Code. Notifications will be directed to the General Manager, Network Regulation North Branch, AER.

### **1. Service Provider is a Legal Entity**

Central Ranges Pipeline Pty Ltd, ABN 38 108 218 355 is a fully owned subsidiary of Country Pipelines Pty Ltd ACN 108 218 346 and both companies are registered in Victoria under the Corporations Act 2001. On 20 June 2008, Central Ranges Pipeline Pty Ltd registered a trading name, Tamworth Natural Gas Company, to promote natural gas as a product and the services that the Company provides.

### **2. Not Carry On a Related Business**

Central Ranges Pipeline currently transports natural gas from the Central West Pipeline exit point at Dubbo to the City of Tamworth. The entity does not produce, purchase (except for operational purposes such as commissioning of pipeline associated equipment or intelligent pigging operations) or sell natural gas.

Central Ranges Pipeline has no other involvement in natural gas except that it holds a gas Reticulator's Authorisation in its name.

### **3. Establish and Maintain Separate and Consolidated Sets of Accounts**

Central Ranges Pipeline owns the transmission pipeline for which it has an access arrangement approved by ACCC and it owns the distribution network for which it has an access arrangement approved by IPART. Both assets are operated by Alinta Asset Management on behalf of Central Ranges Pipeline.

Central Ranges Pipeline Pty Ltd, as the Service Provider, produces annually a set of audited consolidated financial statements.

Separate accounts are maintained for the pipeline and network and the costs are allocated, according to their activities as per the principles set out in Section 8 of the Code. The costs are allocated to the separate accounts, which are audited by independent auditors, Grant Thornton. Annually, as required by the two access arrangements, CRP prepares and submits audited Special Purpose (Regulatory) Financial Statements (previously separate reports to ACCC and to IPART) which provide a detailed Statement of Financial Position – Disaggregation Statement, and a Capital Base Schedule. These reports are accompanied by a detailed explanation as to the allocation methodology for each cost. A certificate is produced which verifies the allocation of these costs as well as the calculation of the capital value.

A copy of the 2007 Statement of Financial Position and Initial Capital Base schedule is attached, in confidence, for AER's reference.

#### **4. Allocation of Shared Costs**

The Transmission Pipeline and the Network commenced operation in August 2006. Practical Completion under the EPC contract for the transmission pipeline was declared in July 2007 as being effected on 31 December 2006. The final handover of the pipeline to the Operation and Maintenance Contractor, Alinta Asset Management took effect from 1 April 2008.

The method of cost allocation may be summarised as follows:

##### **(i) Direct Costs**

This cost allocation methodology applies to both construction and operations. Capital expenditure is split directly between Transmission (T) and Network (N) costs in accordance with the purpose of the expenditure. Operating Expenditure is allocated directly where there is a clear distinction as to the nature of the expense. For example, the two major O&M contracts are clearly defined for the T and the N and are charged and paid for separately. Similarly where insurance costs are clearly delineated they are also allocated as direct costs.

##### **(ii) Costs By Activity**

This cost allocation methodology also applies to both construction and operations. This includes costs which are not clearly identifiable and hence can not be attributed as direct costs.

For example, salaries and wages, which are covering positions performing duties in both construction and O&M, are allocated between T and N in proportion to their involvement and then further allocation is made between construction activities (CAPEX) and operational activities (OPEX).

Another example relates to the insurance costs for property liability which is allocated according to the Capital Base values for the transmission and network assets.

**(iii) Shared Costs**

This category of costs includes "globally" shared costs by the Construction and Operation activities for both Transmission and Network, and refers to general operating costs such as office rents, vehicle maintenance, telephone, IT costs, some salaries and on-costs that are not covered in "costs by activity", accounting and auditing, and printing and stationery costs. These costs are allocated between the transmission and distribution network on the basis of the capital and operational costs spent on these services during the year. This allocation is made each year based upon the level of expenditure and is not related to the capital base values.

**5. Treatment of Confidential Information**

As at 30 June 2008, Central Ranges Pipeline Pty Ltd (CRP) had six employees, two of which are employed on a part time basis. The Chief Executive Officer reports to the Board comprising three non executive Company directors including an independent Chairman. All of them are well aware of the confidentiality requirements and have signed appropriate confidentiality agreements.

Certain operational functions which CRP, users, other end users and the commercial services provider (Alinta Asset Management) perform, are carried out in accordance with the rules of the Gas Market Company (GMC). Membership of GMC binds CRP to the Gas Retail Market Rules. While these rules do not specifically address confidentiality or privacy, they operate to ensure confidentiality by providing a structured and secure way of communicating confidential information to GMC by all relevant parties that CRP conducts its business with.

AAM, the major service provider for CRP, provides Engineering and Operational services for the Dubbo to Tamworth Pipeline and Operational services for management of the Tamworth Network and specified commercial services for the connection and billing of end users to the Tamworth Network.

AAM also provides similar services to a number of other clients and has established appropriate and compliant systems to ensure ring-fencing of sensitive information which applies to CRP business. These systems include the following key components and procedures:

- Ring-fencing, confidentiality and privacy procedures are corporate policy, and adherence is a condition of employment of those working on behalf of CRP
- Relevant staff are required to undertake periodic ring-fencing training and testing.
- IT systems supporting CRP are fully ring-fenced and data is partitioned between retailers and owners.
- Staff are granted specific access to specific functions and data on a role by role basis.



- Bilateral Business to Business transactions managed by AAM on behalf of CRP are structured and automated within AAM's IT systems as a management control avoiding manual handling errors which might otherwise increase the risk of breaching confidentiality.

AAM's senior management has confirmed AAM's compliance with these systems in recent email communication with CRP.

CRP Management is engaged in regular communication with AAM management and addresses the confidentiality and ring-fencing issues as part of a broader reporting of AAM's compliance with contractual obligations and legislative requirements. Any ring-fencing breaches during the reporting periods must be reported to CRP by AAM immediately.

Central Ranges Pipeline, under a long term lease arrangement, occupies its own premises in Tamworth which are relatively new and secured and provide a good base for storage and transmission of confidential information, including electronically.

#### **6. Marketing Staff**

Central Ranges Pipeline has currently six employees; the Chief Executive Officer, the Chief Financial Officer, Marketing and Business Development Manager, Local Manager in Tamworth and two part time administrative support persons. All staff are aware of the ring fencing provision of the Code. In the Company's Tamworth office, there is a readily available copy of the Code and a Ring Fencing Compliance Manual. All employees participated in a formal Ring-fencing Obligations training module during the reporting period. Any new employees will be trained in the ring-fencing provision as part of the Company's induction process.

Central Ranges Pipeline has gas transportation agreements with Country Energy and Origin Energy. Only one retailer is currently active in Tamworth, but both of these retailers are independent in all respects in their operation from Central Ranges Pipeline operations and the conduct of its business. Central Ranges Pipeline staff, in their communications with the retailers, does not exchange any information that would provide any individual retailer with an advantage over any other retailer in conducting their retail business affairs.

The Company's marketing efforts over the period have been conducted through a contractual arrangement with an independent contractor and, more recently, through an appointed Marketing Manager. These activities have been confined to the provision of technical and economic assessments related to the connection of potential end users to the Company owned transmission and distribution systems, advertising the pipeline presence in the area and promoting natural gas as a commodity. Any retail related aspects of these activities are only limited to information in public domain and are provided to the potential users independently by the retailer.



**Central Ranges Pipeline Pty Ltd** ACN 108 218 355

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**ATTACHMENT - COMMERCIAL IN CONFIDENCE**

Attachment to the Ring Fencing Compliance Report (a separate document)

A copy of the 2006-07 Special Purpose (Regulatory) Financial Statement  
(as previously submitted to AER on 30/10/2007)

