



RING FENCING MANUAL

Last updated: 5 February 2009

Envestra Limited ABN 19 078 551 685

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SECTION 1 – INTRODUCTION

Envestra is subject to regulatory arrangements (Access Arrangements) that govern gas haulage in Victoria, South Australia, Queensland and NSW. The Access Arrangements are required for transmission pipelines and distribution networks that fall under the jurisdiction of the National Gas Law (NGL) and National Gas Rules (NGR). Such pipelines/networks are known as Covered Pipelines. The NGL and NGR set out various obligations upon gas distributors of Covered Pipelines in relation to segregating or “ring fencing” the business of providing gas transportation from other specified activities, namely the production, purchasing or selling of natural gas.

Ring fencing provisions reinforce the objective of the separation of gas distribution from gas retailing, which is fundamental to ensuring that abuse of monopoly power is prevented and that customers and retailers have confidence in the effective operation of the retail gas markets.

As Envestra owns a number of Covered Pipelines, Envestra is obliged to comply with the relevant ring fencing provisions, which encompass the following:

1. the segregation of activities of a gas distribution business from the activities of an associate which engages in gas production, gas purchasing or gas selling;
2. the segregation of costs for each Covered Pipeline and the preparation of associated accounts; and
3. the appropriate treatment of Confidential Information.

Good practice requires a gas distributor to establish and maintain appropriate internal procedures to ensure it complies with its regulatory obligations. This Ring Fencing Manual forms the cornerstone of this requirement. This manual is designed to ensure that:

1. Envestra staff, contractors and consultants clearly understand their obligations; and
2. There is a mechanism for recording, reporting and correcting any identified breaches.

In this document:

- A reference to “Envestra” means Envestra Limited and its subsidiaries;
- A reference to Envestra’s staff means employees of Envestra and also agents, contractors and consultants who perform work for Envestra;
- The NGL/NGR use terminology such as “user” and “prospective user”, which refers to the party requesting haulage services from Envestra. In the majority of cases this will be a retailer, and for ease of understanding the term “retailer” is used in this document where appropriate. However, it should be understood that non-retailers, eg large gas consumers, may also request access to the distribution system, in which case they are also users or prospective users;
- Terms beginning with capitals are defined in the NGL where their meaning is not defined in this document.

SECTION 2 – RING FENCING POLICY

Envestra and its staff will comply with the ring fencing provisions of the National Gas Law and National Gas Rules for all the Covered Pipelines which it owns.

Envestra will provide the necessary training and support to its staff to enable them to understand and fulfil their obligations.

SECTION 3 – RING FENCING OBLIGATIONS

1. RESPONSIBILITY AND ACCOUNTABILITY

Envestra will ensure that relevant staff understand the concept of ring fencing and have a commitment to compliance. Envestra has nominated an executive as Ring Fencing Compliance Manager to oversee this.

Obligations:

- 1.1 Staff who are affected by ring fencing requirements are required to read the Ring Fencing Manual and sign a statement confirming their understanding of obligations imposed upon them.
- 1.2 Managers and supervisors are responsible for assisting their staff to understand and ensure compliance with ring fencing obligations.
- 1.3 If a staff member becomes aware of any breach or potential breaches of ring fencing provisions, they will report immediately such incidents to their manager/supervisor and the Ring Fencing Compliance Manager.
- 1.4 Contact details for the Ring Fencing Compliance Manager are as follows:

Ralph Mignone
Manager, Engineering & Technical Regulation
Envestra Limited
Level 10, 81 Flinders Street
Phone: (08) 8227 1500
Email: Ralph.mignone@envestra.com.au

2. RELATED BUSINESSES

Section 139 of the NGL requires a gas distributor for a Covered Pipeline not to carry on a Related Business, which means the business of producing, purchasing or selling natural gas (but does not include purchasing or selling natural gas for the purpose of enabling the safe and reliable operation of a Covered Pipeline, or to allow the gas distributor to provide balancing services). Envestra meets this requirement.

Obligation:

Envestra will ensure that it will not carry on a Related Business of producing, purchasing or selling natural gas, except to the extent that it is necessary for the safe and reliable operation of a Covered Pipeline, or for the provision of balancing services.

3. ACCOUNTING AND REPORTING

Section 141 of the NGL requires Service Providers to prepare separate accounts for Covered Pipelines belonging to a Service Provider.

Obligations:

3.1 Envestra will ensure that it:

- (a) Establishes and maintains a separate set of accounts for each Covered Pipeline which it owns (NGL section 141(a)); and
- (b) Establishes and maintains a separate consolidated set of accounts in respect of its entire business (NGL section 141(b)).

3.2 Envestra will prepare ring fenced financial statements in accordance with relevant accounting standards and conventions. Envestra will also take into account any relevant regulatory accounting guidelines.

4. CONFIDENTIALITY

Rules 136-138 of the NGR deal with the appropriate treatment of Confidential Information, which is defined by the rules (as Relevant Confidential Information) as follows:

- (a) *information given to a service provider in confidence by a user or prospective user or information about a user or prospective user that the user or prospective user has asked the service provider to keep confidential; or*
- (b) *gas supply information.*

Rule 137 of the NGR states:

- (1) *A scheme pipeline service provider must not:*
 - (a) *disclose relevant confidential information; or*
 - (b) *use relevant confidential information for a purpose other than the purpose for which the information was given to the service provider.*
- (2) *A scheme pipeline service provider must take all practicable steps to protect relevant confidential information in the service provider's possession against improper disclosure or use.*

- (3) *This rule does not, however, prevent:*
- (a) *disclosure or use of relevant confidential information with the consent of the person to whom the information relates; or*
 - (b) *disclosure or use of information that is in the public domain; or*
 - (c) *disclosure or use of relevant confidential information in order to comply with:*
 - (i) *the law of a participating jurisdiction; or*
 - (ii) *an order of a court or tribunal of a participating jurisdiction; or*
 - (iii) *a requirement imposed by or under the Law; or*
 - (iv) *the listing rules of a recognised stock exchange.*

Hence Confidential Information is not to be disclosed by staff to any other person without first obtaining the approval of the retailer to which that information relates. In this context, "any other person" includes any person outside of the gas distribution business, as a retailer or customer would not expect such persons to receive such information.

It should be noted that Envestra may be asked to supply Confidential Information under some circumstances to an energy ombudsman or regulator, notably in the case of disputes or complaints. This is allowed under part (3) of rule 137.

Examples of information considered to be Confidential Information are:

1. Information from a retailer about its proposed use of the distribution system;
2. Customer information (historical, current, forecast) provided by a retailer;
3. Customer metering data;
4. Discussions with retailers regarding customers, sales, strategies, customers gained and lost; and
5. Network enhancements arising from a retailer's plans or requests.

Obligations:

- 4.1 Staff that may handle Confidential Information shall be informed of the requirements relating to Confidential Information, and it is the responsibility of all such staff to understand what Confidential Information is and to know how to handle such information.
- 4.2 Employees are required as a condition of employment to sign an agreement which contains a confidentiality clause.
- 4.3 When seeking to authorise disclosure of Confidential Information to a third party, staff should liaise with their immediate manager/supervisor or the Ring Fencing Compliance Manager if there is any doubt.

4.4 The following are general behavioural guidelines for Staff:

- (a) A key question to ask in determining whether information is Confidential Information is whether the disclosure of that information is likely to cause harm to a party or whether it has any commercial value;
- (b) Be aware that the rules pertaining to Confidential Information apply equally to verbal discussions, both in person and by telephone, as well as written information including e-mails;
- (c) It is helpful to consider prior to a meeting or prior to sending information to a third party, what potential benefit a third party may obtain by receiving that information. Staff should plan for meetings, think in advance about the possible consequences of disclosure at meetings and should be prepared so as not to inadvertently disclose Confidential Information;
- (d) If in doubt, don't release information which you believe may be Confidential Information. It is better to err on the side of caution. It is easier to release information after a meeting when you have had the opportunity to check it with the Ring Fencing Compliance Manager, rather than attempt to retract information already provided;
- (e) Respect client confidentiality on all matters;
- (f) Alert colleagues to any concerns you may have as to their possible disclosure of Confidential Information;
- (g) Ensure existing security systems are maintained, such as regularly changing passwords and making sure only authorised personnel can access Confidential Information;
- (h) Keep sensitive documents in a locked or secure place, and do not leave such documents on your desk overnight;
- (i) Ensure that secure waste disposal bins are used for the disposal of documents which may contain sensitive information;
- (j) Take care to properly address correspondence, whether it be by post, facsimile, courier or e-mail, to ensure that it reaches the correct recipient; and
- (k) Managers and supervisors should restrict Confidential Information provided to their subordinates to a level where that information is required to enable those employees to be able to perform their duties efficiently and effectively.

5. **MARKETING STAFF**

Section 140 of the NGL states:

- (1) *On and after the compliance date, a covered pipeline service provider must ensure that none of its marketing staff are officers, employees, consultants, independent contractors or agents of an associate of the covered pipeline service provider that takes part in a related business.*

- (2) *On and after the compliance date, a covered pipeline service provider must ensure that none of its officers, employees, consultants, independent contractors or agents are marketing staff of an associate of the covered pipeline service provider that takes part in a related business.*

As Envestra has no associates and does not employ or use marketing staff that are affiliated with any retailers, this obligation does not affect Envestra.

6. POLICY IMPLEMENTATION AND ADMINISTRATION

- 6.1 The Ring Fencing Manual will be distributed to all staff that handle or are likely to handle Confidential Information, so that they understand their ring fencing obligations.
- 6.2 Staff should inform their Manager/Supervisor immediately they become aware of any breach/potential breach of ring fencing provisions. The Ring Fencing Compliance Manager should be contacted as soon as possible, with the details of the breach/potential breach documented in writing.
- 6.3 The Ring Fencing Compliance Manager has primary responsibility for the effective implementation of the Ring Fencing Manual and is responsible for:
- (a) Revisions to the Ring Fencing Manual;
 - (b) Investigation of breaches/potential breaches as reported by staff and/or third parties;
 - (c) Staff training and support as required; and
 - (d) Liaison with external parties with respect to ring fencing matters.
- 6.4 The Ring Fencing Compliance Manager will maintain a record of all issues regarding potential or actual ring fencing breaches which are raised by staff, retailers or other third parties. The record will contain the following information:
- (a) The date the breach/potential breach was reported;
 - (b) The party reporting the breach/potential breach;
 - (c) Results of the review, including any recommendations for change to remedy the situation or to modify the Ring Fencing Manual; and
 - (d) Correspondence with parties in relation to the breach/potential breach.
- 6.5 The Ring Fencing Manual will be reviewed periodically by the Ring Fencing Compliance Manager and will take into account the following:
- (a) The history of breaches/potential breaches;
 - (b) Relevant communications with the Regulator;
 - (c) Feedback from staff; and
 - (d) Any changes to the NGL/NGR.

7. ASSOCIATE CONTRACTS

Sections 147 and 148 of the NGL deal with Associate Contracts:

147 — Service provider must not enter into or give effect to associate contracts that have anti-competitive effect

A covered pipeline service provider must not:-

- (a) enter into an associate contract that has; or*
- (b) vary an associate contract so that contract, as varied, has; or*
- (c) give effect to a provision of an associate contract that has, the purpose, or would have or be likely to have the effect, of substantially lessening competition in a market for natural gas services unless—*
- (d) that associate contract is an approved associate contract; or*
- (e) that provision is contained in an approved associate contract.*

148 — Service provider must not enter into or give effect to associate contracts inconsistent with competitive parity rule

(1) A covered pipeline service provider must not—

- (a) enter into an associate contract that is; or*
- (b) vary an associate contract so that contract, as varied, is; or*
- (c) give effect to a provision of an associate contract that is, inconsistent with the competitive parity rule unless—*
- (d) that associate contract is an approved associated contract; or*
- (e) that provision is contained in an approved associate contract.*

(2) For the purposes of subsection (1), and any Rules made for the purposes of that subsection, the competitive parity rule is the rule that a covered pipeline service provider must ensure that any pipeline services that the covered pipeline service provider provides to an associate of the covered pipeline service provider are provided to that associate as if that associate were a separate unrelated entity.

As Envestra does not have any Associates or Associates involved in Related Businesses, the above requirements are not applicable to Envestra.