



Overview of the ring fencing compliance reporting program for gas transmission pipelines, 2006-2007

November 2007

1. Introduction

Ring fencing is designed to assist the introduction of effective competition into markets traditionally supplied by natural monopolies. It involves developing and maintaining structures and procedures to prevent certain flows of information and personnel which could be detrimental to users of the pipeline and to competition in upstream and downstream markets.

Ring fencing is also intended to prevent inappropriate transfers of costs and revenues within an integrated utility, between related businesses and between regulated and unregulated assets.

2. Ring fencing obligations

Section 4 of the *National Third Party Access Code for Natural Gas Pipeline Systems* (the code) sets out the minimum ring fencing obligations for service providers of covered pipelines. These include the establishment and maintenance of appropriate internal procedures to ensure compliance with the ring fencing provisions.

From the time a pipeline is covered a service provider must comply with the provisions relating to:

- establishing and maintaining separate and consolidated accounts (s. 4.1(c) and (d) of the code)
- allocating shared costs consistent with code principles (s. 4.1(e)), and
- protection of confidential information (s. 4.1(f) and (g)).

Compliance with the remaining s 4.1 obligations is mandatory from six months after the pipeline becomes covered. These provisions relate to:

- the legal entity of a service provider (s. 4.1(a))
- not conducting a related business (s. 4.1(b)), and

- separation of marketing staff (s. 4.1(h) and (i)).

Section 4.12 provides that the regulator may assess the adequacy of these procedures and review compliance with these obligations at regular intervals.

Section 4.13 requires service providers to provide a report to the regulator at reasonable intervals determined by the regulator. These reports are to describe the measures the service providers have taken to ensure compliance with their obligations under s. 4 and should include an accurate assessment of the effect of those measures. The ACCC has determined that service providers must submit ring fencing compliance reports annually.

Schedule 1 clause 2 of the Gas Pipeline Access Law defines a service provider as the owner or operator of a pipeline. Under s. 10.1(d) of the code, where there is more than one service provider for a covered pipeline each service provider is required to comply with the ring fencing provisions of the code. Accordingly, the ACCC requires that, where there is more than one service provider for a covered pipeline, each service provider is to submit a compliance report for the pipeline in line with its reporting arrangements.

3. Current reporting arrangements

The ACCC has developed a pro forma compliance report to assist service providers to meet their ring fencing reporting obligations and to standardise the information provided. The ACCC suggests that service providers use the pro forma document as the basis for their ring fencing compliance reports. In addition, the ring fencing reports are to be approved by the board of directors and include a signed statement of compliance.

A copy of the pro forma compliance report relevant to 2006-2007 is located on the Australian Energy Regulator website at www.aer.gov.au under the Gas link.¹

4. Service providers

The ACCC received annual ring fencing compliance reports from 14 service providers, reflecting their interests in 10 transmission pipelines. The pipelines and the relevant service providers participating in the program are listed below.

¹ The enabling legislation to transfer the ACCC's current functions in gas to the AER has yet to be enacted. However, for administrative simplicity, all ACCC documents relating to the gas transmission regulation function have been included on the AER website.

Table: Participating service providers, 2006-07

Pipeline	Service provider
Amadeus Basin to Darwin Pipeline	NT Gas Pty Ltd
Moomba to Adelaide Pipeline	Epic Energy South Australia Pty Ltd Epic Energy Corporate Shared Services Pty Ltd
South West Queensland Pipeline	Epic Energy Queensland Pty Ltd Epic Energy Corporate Shared Services Pty Ltd
GasNet System	GasNet Australia (Operations) Pty Ltd VENCorp Pty Ltd
Wallumbilla to Gladstone Pipeline	Alinta DEQP Pty Ltd Alinta DQP Pty Ltd
Moomba to Sydney Pipeline	East Australian Pipeline Ltd
Central West Pipeline	APT Pipelines (NSW) Pty Ltd
Roma to Brisbane Pipeline	APT Petroleum Pipelines Ltd
Ballera to Mt Isa Pipeline	Roverton Pty Ltd APT Pipelines (Qld) Pty Ltd
Central Ranges Pipeline	Central Ranges Pipeline Pty Ltd

5. Reports for 2006-2007

The ACCC has assessed the ring fencing reports for compliance with the information requirements currently set out in its pro forma report, within the context of service providers' reporting obligations under s. 4.13 of the code.

In summary, in terms of meeting the requirements currently set out in the pro forma report:

- reports for all 14 service providers complied to a satisfactory level
- the ACCC found that, in general, the information provided regarding the service providers' compliance with their ring fencing obligations was an improvement on last year's reports
- the ACCC identified minor areas for improved reporting in future with respect to
 - the treatment of confidential information by related entities that provide services on behalf of the pipeline owner (s 4.1(f) and (g)), and
 - marketing staff (s 4.1(h) and (i)).

The ACCC has written to each of the service providers regarding its assessment of their 2006-07 reports.

6. Future reporting arrangements

Increased scrutiny in recent years has resulted in improvements in the information provided in compliance reports. This has enabled the ACCC to better understand the policies and procedures that service providers have established to meet the ring fencing obligations set out in s. 4.1 of the code.

The draft National Gas Law (NGL) and draft National Gas Rules (NGR) contemplate compliance with ring fencing requirements and other obligations. The Australian Energy Regulator will liaise with service providers in regard to the future compliance monitoring and the reporting program once the NGL and NGR come into effect.