



Victorian Energy Networks Corporation

22 July, 2003

FILE No:
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MARS/PRISM:

Mr Russell Phillips  
Acting General Manager  
Regulatory Affairs – Gas  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Russell

**RING FENCING COMPLIANCE REPORT – PRINCIPLE TRANSMISSION SYSTEM**

In response to your letter dated 4 June 2003, please find attached a statement by VENCorp of its compliance with the Ring Fencing obligations under Sections 4.13 of the National Third Party Access Code for Natural Gas Pipeline Systems.

If you have any queries regarding the attached please do not hesitate to contact Terry Grimwade on (03) 8664 6610 or email [terry.grimwade@vencorp.vic.gov.au](mailto:terry.grimwade@vencorp.vic.gov.au)

Yours sincerely

A handwritten signature in black ink, appearing to read 'Clive Hall'.

Clive Hall  
Chairman

Encl.

<b>AUST. COMPETITION &amp; CONSUMER COMMISSION CANBERRA</b>
<b>24 JUL 2003</b>

**Ring Fencing Compliance Report by VENCORP for the financial year  
2002/2003 submitted to the ACCC**

**VENCORP - Principal Transmission System**

1. Attached is the annual ring fencing compliance report for the year ending 30 June 2003. VENCORP has not varied the Ring Fencing Compliance Report or Statement of Compliance from the original forms sent by the ACCC, other than to provide the information required.
2. VENCORP is not aware of any breach of any of the obligations listed in section 4.1 of the Code other than as detailed in this report.
3. VENCORP has maintained a compliance program during the relevant period that ensures that:
  - (a) 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 Pipeline Systems (the Code);
  - (b) an accurate assessment of these procedures has been made;
  - (c) the Chief Executive Officer of VENCORP is made aware of any breaches of the ring fencing obligations;
  - (d) remedial action is taken as soon as possible to rectify breaches of the minimum ring fencing obligations and that completion of this action is reported to the Board of Directors;
  - (e) the compliance program is reviewed regularly and as necessary.
4. The Board of Directors of VENCORP has approved this report at its meeting on 21 July 2003.

Signed by:



Matt Zema  
Chief Executive Officer



Clive Hall  
Chairman

Date: 21/7/2003

Date: 21/7/2003

## Information relating to sign off requirements

The Commission requires ring fencing compliance reports be approved by the Board of Directors of the Service Provider and signed by both the Chief Executive Officer and an External Director (as defined in this document). Where there is no External Director it may be appropriate for the report to be signed by an External Director of the Service Provider's Australian holding company (as defined in the Corporations Act (2001)). Where neither the Service Provider nor its holding company has an External Director the Service Provider may request that this function be carried out by any director of the Service Provider.

Requests for the reports to be signed off by an External Director of the Service Provider's holding company or a non-external director of the Service Provider should be made in writing to the Commission at least one month before the compliance reports are due. Requests must provide sufficient information to demonstrate the circumstances of the Service Provider. For example, this may be achieved by providing a list of current directors of the business, a list of directors of any Australian parent company (where applicable) and an explanation of why they are not considered to be External Directors as per Commission requirements. The Commission will consider requests on a case by case basis.

## Definitions

Unless otherwise defined, all capitalised terms used in this document have the meaning given to them in section 10.8 of the Code.

**'External Director'** A director of the Service Provider is an External Director if he/she:

- (a) is not, and has not been in the previous 2 years, an employee of the Service Provider or a related body corporate; and
- (b) is not, and has not been in the previous 2 years, an executive officer of a related body corporate; and
- (c) is not, and has not been in the previous 2 years, substantially involved in business dealings, or in a professional capacity, with the Service Provider or a related body corporate; and
- (d) is not a member of a partnership that is, or has been in the previous 2 years, substantially involved in business dealings, or in a professional capacity, with the Service Provider or a related body corporate; and
- (e) does not have a material interest in the Service Provider or a related body corporate; and is not a relative or de facto spouse of a person who has a material interest in the Service Provider or a related body corporate.

## Compliance with minimum ring fencing obligations

VENCorp submits this report under section 4.13 of the Code. The report describes the measures taken to ensure compliance with its obligations under section 4 and provides an accurate assessment of the effect of those measures.

VENCorp will, pursuant to section 4.14 of the Code, notify the Commission immediately on becoming aware of a breach (or potential breach) of its obligations under section 4 of the Code. Notification will be directed to the General Manager, Regulatory Affairs – Gas, ACCC.

### 1 Service Provider is a legal entity

*Section 4.1(a) of the Code requires a Service Provider to be a legal entity.*

State whether VENCorp is a legal entity, the full name of the entity and under which law it is registered.

VENCorp is a public authority established under the Victorian Gas Industry Act (1994) and continued under the Gas Industry Act 2001.

### 2 Not carry on a Related Business

*Section 4.1(b) of the Code requires that a Service Provider not carry on a Related Business (essentially a business of producing, purchasing or selling natural gas).*

Describe the business activities of VENCorp and state whether these activities include any producing, purchasing or selling natural gas.

The Victorian Energy Networks Corporation (VENCorp) is responsible for the operation of the Victorian “gas transmission system” (as defined in the GIA) and the development, implementation and operation of the Victorian gas “spot” market.

VENCorp acquired electricity industry functions in mid 1999 and is a Transmission Network Service Provider in the Victorian electricity industry and has responsibilities for planning and directing augmentation of the Victorian electricity transmission system. It also provides planning services to the Victorian gas market.

It is wholly owned by the Government of Victoria and is responsible to the Minister for Energy Industries and Resources.

VENCorp does not carry on a Related Business. Its functions are set out in section 160 of the Gas Industry Act 2001.

VENCorp’s roles as system and market operator for the “gas transmission system” are:

- The provision of a safe, secure and reliable supply of gas, and managing industry activities during major gas emergencies; and
- Scheduling the injection and withdrawal of gas throughout the transmission system in accordance with the GIA and the MSO Rules;
- Administering the metering and settlements functions;
- Providing timely and accurate information to market participants on pricing, gas demands and forecasts; and
- Monitoring compliance with MSO Rules and managing the Rule change process.

As the system planner providing planning services for the gas and electricity industries:

- Planning and directing the augmentation of the Victorian electricity transmission system;
- Providing information and other services to facilitate decisions for investment and the use of resources in the gas and electricity industries;
- Providing planning services to the gas market; and
- During 2002/03 VENCorp was requested by the Minister to administer the Special Power Payment Scheme, which ensures consistency between the electricity bills of consumers in outer suburban, regional and rural areas and those of consumers in the metropolitan area.

VENCorp also has operational and communications responsibilities during gas and electricity emergencies.

Please fill out the table below for all VENCorp's Associates with any involvement in natural gas:

VENCorp's Board currently comprises nine Directors, three are drawn from the gas industry.

The three Directors are:

VENCorp Director	Entity	Business carried on	Assets owned
David Biggs	BHP Billiton	Gas Supplier	
Christine O'Reilly	GasNet	Gas Transmission	Transmission Pipelines
Caryle Demarte	TXU	Gas Retailer	

### 3 Establish and maintain separate and consolidated sets of accounts

Section 4.1(c) of the Code requires Service Providers to establish and maintain separate accounts for the activity that is the subject of each Access Arrangement.

Section 4.1(d) of the Code requires Service Providers to establish and maintain a consolidated set of accounts for all the activities undertaken by the Service Provider.

Describe the measures taken to ensure that a separate set of accounts has been established and maintained in respect of the Services provided by each Covered Pipeline for which VENCorp is a Service Provider (for example, describe how you ensure that costs incurred in relation to a Covered Pipeline are allocated to the relevant set of accounts)

VENCorp is a Service provider in respect of the "gas transmission system" as defined in the Gas Industry Act (1994). Its accounts in respect of Services provided are published through its Annual Report and in budget and fee submissions to the ACCC on an annual basis in accordance with requirements of the Market and System Operations Rules and the Victorian Tariff Order.

The VENCorp organisation is structured to provide ring-fenced accounting, and this is enhanced by all staff completing daily time recording of activities. This is reviewed regularly to ensure that costs are appropriately captured.

VENCORP is required to comply with the Financial Management Act 1994.

VENCORP's monthly financial reports are segmented and published and distributed to Victorian gas market participants in the same detail as provided in the annual submission to the ACCC seeking approval of its fees and charges. VENCORP fully believes that the segmentation detail meets the required standards of disclosure. The level of detail and segmentation included in the submissions to the ACCC have to date not been queried nor has VENCORP received any indication that the disclosure is inadequate.

**Describe the measures taken to ensure that a consolidated set of accounts has been established and maintained in respect of the entire business of VENCORP.**

VENCORP's accounts in respect of its entire business are published annually through its Annual Report. A copy of the last published annual accounts is attached.

#### **4 Allocation of shared costs**

*Section 4.1(e) of the Code requires Service Providers to allocate costs in a fair and reasonable manner that is consistent with the principles in section 8.1 of the Code.*

**Provide details of the method of cost allocation used to allocate shared costs between Services provided by each Covered Pipeline and any other activity. If there is more than one method used, indicate which costs are allocated under which method. (It is not sufficient to merely assert that costs are allocated on a fair and reasonable basis in accordance with section 8.1 - please provide details of how these costs are allocated.)**

The VENCORP organisation is structured on a cost centre basis which provides cost segregation of its statutory functions. The departments which provide a service to the organisation, ie. Finance and Human Resources etc. accumulate costs in separate cost centres and are allocated principally on a headcount basis.

VENCORP staff all complete daily time analysis and this is reviewed regularly to ensure 'one off' or short term transfer of resources between departments are correctly charged.

VENCORP's methodology for allocation of costs across its business activities is described and presented to ACCC annually in its fee submission under the MSO Rules and Tariff Order. It has been reviewed and approved by the Victorian Auditor General.

VENCORP's accounting practices in the allocation of costs between its various gas and electricity activities have also been reviewed as part of the previous regulatory reviews:

- By PB & Associates engaged by ACCC to assist in the review of VENCORP's submission for approval of its electricity revenue cap for 2003-08 under the National Electricity Code;
- By PB & Associates engaged by the Victorian Essential Services Commission to assist in the review of VENCORP's proposed charges to gas retail businesses for the recovery of costs associated with the implementation and operation of gas full retail competition under S.69 of the GIA 2001; and
- by PricewaterhouseCoopers as part of the audit by the ESC into the cost structures for Gas Full Retail Contestability, audit held in March 2003.

In each case, the consultant's report concluded that VENCORP's cost allocation methodologies were satisfactory.

## 5 Treatment of Confidential Information

Under sections 4.1(f) and (g) of the Code, Service Providers must ensure that:

- Confidential Information provided by a user or prospective user is used only for the purposes for which it was provided and is not disclosed without the user or prospective user's consent; and
- Confidential Information obtained by a Service Provider which might reasonably be expected to materially affect the commercial interests of a user or prospective user is not disclosed to any other person without the permission of the user or prospective user to whom the information pertains.

Note that where functions of the Service Provider have been outsourced to a third party, the Service Provider is responsible for ensuring that any Confidential Information provided to the third party is handled in accordance with sections 4.1(f) and (g) of the Code.

Provide details of any policies or measures taken by VENCORP to ensure that all Confidential Information it obtains is treated as specified in sections 4.1(f) and 4.1(g) of the Code. Examples include measures in place to ensure security of electronic and hard copy information, physical barriers such as secure access and confidentiality agreements signed by relevant staff.

Data stored on VENCORP's market Information Bulletin Board (MIBB) is classified as either public or private. Public information, which is also loaded onto VENCORP's corporate web site, is available to all market participants without UserID or password.

To gain access to the MIBB server, a Participant MUST register their network addresses with VENCORP so that firewall access is granted.

For access to private data, Participants MUST login with UserID and Password. More than 5 failed attempts result in the offending account being locked out. Re-enabling the account is based on request from the Participant. Security is set on the server to grant access to a Participant's data ONLY to that Participant.

VENCORP maintains a high level of building security via an electronic access arrangement, regular security checks and a detailed security policy.

Describe the measures in place to ensure that these policies have been successful and are regularly evaluated. Outline how often these policies are reviewed and assessed.

VENCORP's procedures for handling and ensuring the security of confidential information are regularly reviewed by the Market Auditor appointed under clause 5.1.7 of the MSO Rules – to date no breaches of confidentiality have been reported or alleged by any party.

## 6 Marketing Staff

Service Providers must ensure that:

- their Marketing Staff (essentially those directly involved in sales, sale provision or advertising for the Service Provider) are not also working for an Associate that takes part in a Related Business (section 4.1(h) of the Code); and
- the Marketing Staff of an Associate involved in a Related Business are not also working for the Service Provider (section 4.1(i) of the Code).

Note that in answering the questions below, the broadest possible meaning is to be given to 'servants, consultants, independent contractors or agents'.

Please indicate whether any of VENCORP's Marketing Staff are also servants, consultants, independent contractors or agents of an Associate that takes part in a Related Business. If so, please describe the situation.

VENCORP is not involved in the marketing or sale of natural gas and does not engage any marketing staff who are also servants, consultants, independent contractors or agents of an association that takes part in a related business.

Please indicate whether any of VENCORP's servants, consultants, independent contractors or agents are also Marketing Staff of an Associate that takes part in a Related Business. If so, please describe the situation.

All senior VENCORP staff and all Board members complete "Declarations of Private Interest" Conflicts of interest issues are considered in the appointment of Consultants and Contractors and Legal advisors.

Describe the procedures that VENCORP has in place to ensure that it complies with section 4.1(h) and 4.1(i) of the Code (for example, declarations signed by new staff). Outline how often these procedures are reviewed and assessed.

"Declaration of Private Interest" are reviewed annually.

All VENCORP senior staff have signed employment contracts which include confidentiality clauses. Contracts are signed for a period of 3 years.