

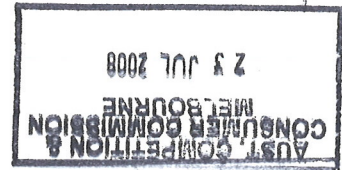


**Victorian Energy Networks Corporation**

Office of the Chief Executive Officer  
Victorian Energy Networks Corporation  
Level 2 Yarra Tower  
World Trade Centre  
Siddeley Street  
Melbourne Vic 3005  
Telephone (03) 8664 6500  
Facsimile (03) 8664 6510

22 July 2008

*22/7/08*  
Mr Chris Pattas  
General Manager  
Network Regulation South Branch  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001



*Chris,*  
Dear Mr Pattas,

**RE: FINAL 2007/08 RING FENCING COMPLIANCE REPORT – GASNET SYSTEM**

Please find enclosed final VENCorp's Compliance report for 2007/08.

The 2007/08 Ring Fence Compliance Report was reviewed and approved by the Board on 21 July 2008.

As requested the report has been signed by one Director and the Chief Executive Officer of VENCorp.

If you have any queries in relation to this report please contact Karen Olesnicky on 8664 6660.

Yours sincerely

Matt Zema  
Chief Executive Officer

Enc.

FILE No
DOC <i>D08/71517</i>
WARS/PRISM:



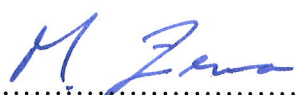
## Statement of Compliance

### Statement of Compliance for VENCORP for the financial year 2007/08

#### VENCORP – Principal Transmission System

1. Attached is the annual Ring Fencing Compliance Report for the year ending 30 June 2008. 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 approved this report at its meeting on 21 July 2008

Signed by:

  
.....  
NAME: Matt Zema  
CHIEF EXECUTIVE OFFICER

DATE: 22.07.08

  
.....  
NAME: Clive Hall  
DIRECTOR

DATE: 22.07.08



# Ring Fencing Compliance Report

## Ring Fencing Compliance Report for VENCORP for the financial year 2007/08

### Definitions

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

### Compliance with minimum ring fencing obligations

Victorian Energy Networks Corporation (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 should be directed to the General Manager, Network Regulation North Branch, 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.**

VENCORP is responsible for the operation of the Victorian “gas transmission system” (as defined in the Gas Industry Act (GIA)) and the development, implementation and operation of the Victorian gas “spot” market.

VENCORP acquired electricity industry functions in mid 1999 and is the Transmission Network Service Provider in the Victorian electricity industry and has responsibilities for planning and directing augmentation of the Victorian electricity transmission systems. 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 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;
- 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
- Since 2002/03 VENCorp has administered the Special Power Payment Scheme and its successor the Network Tariff Rebate 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 communication responsibilities during gas and electricity emergencies.

VENCorp is involved in a number of specific projects which are Ringfenced for accountability purposes. These include:

- Bulletin Board (Gas Market Company (GMC) and Commonwealth Government);
- Short Term Trading Market (STTM – GMC and Commonwealth Government);
- Full Retail Contestability Systems (FRC) – SA/WA (contracted services from REMCo);
- FRC – Victoria; and
- FRC – Queensland (contracted services from Queensland Department of Mines and Energy); and
- During the 2007/08 financial year VENCorp contracted with APA Group for 3000 tonnes of LNG reserve.

VENCorp has a LNG contract with APA Group (formally GasNet) for 1500 tonnes storage capacity from 1 April 2008 that extends to January 2010. Note this capacity was reduced from 3000 tonnes to 1500 tonnes during the 2007/08 financial year. Income from the sale of the 1500 tonnes of capacity storage will be used to decrease security fees paid by Market Participants in 2008/09.

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

<b>Entity</b>	<b>Business carried on</b>	<b>Assets owned</b>
Name of each Associate (and its relationship to VENCorp)	Eg. Transmission/ distribution of gas, gas retailing, gas production/exploration	Eg. Name of asset
Ed de Prinse <sup>■</sup> (Director of VENCorp)	Gas Transmission Gas Networks / Distribution	GasNet – Gas
Karen Moses (Director of VENCorp)	Gas Retailer	Origin Gas and Electricity
Graeme York <sup>■</sup> (Director of VENCorp)	Power Generator	International Power
Christian Zahra* (Director of VENCorp)	Power Generator	Loy Yang Power
Note: * Director to 3/7/2007 only Note: ■ Director from 4/07/2007		

### 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 to be provided are published through its Annual Report and in budget and fee submissions which are made to the Australian Energy Regulator (AER) 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 fencing accounting and this is enhanced by 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 Victorian Financial Management Act 1994.

VENCorp’s monthly financial reports are segmented, published and distributed to Victorian gas market participants in the same detail as provided in the annual submission to the AER seeking approval of its fees and charges. The segmentation detail included in the submissions to the AER has been accepted and VENCorp believes that the AER requirements on disclosure are adequate.

VENCorp’s Cost Allocation Methodology (CAM) was submitted to the AER in 2007/08.

**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.**

Segment Financial Statements and Consolidated Financial Statements results are reported to the Board on a monthly basis and audited by the Auditor General on an annual basis.

VENCorp’s accounts in respect of the entire business are published in an Annual Report. A copy of the latest 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 that provide services to the

organisation, ie. Finance, Risk Management and Human Resources etc. accumulate costs in separate cost centres and are allocated principally on a headcount and daily time analysis basis.



VENCorp's methodology for allocation of costs across its business activities is described and presented to AER 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 (PwC) as part of the audit by the ESC into the cost structures for Gas Full Retail Contestability, audit held in March 2003.
- By PwC as part of VENCORP's Internal Audit Program in 2006/07.
- VENCORP's Cost Allocation Methodology is listed as part of VENCORP's ongoing Internal Audit program and is again scheduled for review in 2008/09 by Deloitte.

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 included on VENCORP's web site, is available to all market participants

To obtain access to the MIBB server, a Participant must register a network address with VENCORP in order for firewall access to be granted. For access to private data, Participants must use a UserID and Password. More than 3 failed attempts result in an account being locked out. Re-enabling an account is based on written 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 a detailed security policy that includes an electronic restricted access approval arrangement and regular security checks.

**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 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 that are also servants, consultants, independent contractors or an agent of an association that takes part in an associated 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 staff and all Board members complete "Declarations of Private Interest". Conflict of interest issues are considered in the appointment of Consultants, 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" returns are reviewed annually. All VENCORP senior staff have signed employment contracts that include confidentiality clauses.