


Statement of Compliance

Statement of Compliance for VENCORP (Victorian Energy Networks Corporation) for the financial year 2005/06

VENCORP – Principal Transmission System

1. Attached is the annual Ring Fencing Compliance Report for the year ending 30 June 2006. 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. Compliance obligations are monitored on a monthly basis and any areas of non compliance are reported to the CEO and to the Audit and Risk Committee on a quarterly basis. Segment Statements of Financial Performance and Consolidated Financial Performance are provided in VENCORP's Annual Report. The Compliance requirements under the Market System Operation Rules (MSOR) will be reviewed pending finalisation of the revised MSOR in readiness for start up of the new Gas Market in February 2007.
4. The Board of Directors of VENCORP are scheduled to review this report at its meeting on 21 August 2006.

Signed by:


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NAME: Matt Zema
CHIEF EXECUTIVE OFFICER

DATE: 21. 08. 06


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NAME: Clive Hall
CHAIRMAN / DIRECTOR

DATE: 21. 08. 06

Ring Fencing Compliance Report

Ring Fencing Compliance Report for VENCORP for the financial year 2005/06

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

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, 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.

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).

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 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 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.

Ring Fencing Compliance Report by VENCORP for the financial year 2005/06

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.

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

Entity	Business carried on	Assets owned
Name of each Associate (and its relationship to VENCORP)	Eg. Transmission/ distribution of gas, gas retailing, gas production/exploration	Eg. Name of asset
Christine O'Reilly	GasNet – Gas Transmission	
Karen Moses	Origin Gas and Electricity Retailer	
Bill Bloking	BHP Billiton Petroleum Pty Ltd	

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.

[REDACTED]

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 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 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.

[REDACTED]

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.

[REDACTED]

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 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.

Private information is held by VENCORP in relation to all market participants and is held in a secure environment. VENCORP has implemented measures to ensure that this information is held securely and confidentially.

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.

[REDACTED]

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'.

[REDACTED]

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 an agent of an association that takes part in an associated business.

[REDACTED]

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.

[REDACTED]

"Declaration of Private Interest" are reviewed annually.

All VENCORP senior staff have signed employment contracts that include confidentiality clauses.