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25 March 2013

Ian Dempster
Gas Industry Company
95 Customhouse Quay
WELLINGTON

By email: Gas Industry Company website

Dear Ian

Draft Recommendation on 27 November VTC Change Request Appeal (Balancing)

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company ("the GIC") on its draft recommendation on the "27 November VTC Change Request Appeal (Balancing)".

Genesis Energy does not support the draft recommendation to approve this Change Request

Genesis Energy does not support the GIC's draft decision to approve this Change Request. For the reasons outlined in our earlier submission¹, we do not agree that the proposed changes to the dispute procedures in the VTC are in the best interests of the industry as a whole. We recommend that the GIC decline this Change Request and that Vector re-submit a new change request with the dispute procedure changes removed.

Genesis Energy remains of the view that the dispute procedure changes:

- unfairly and unnecessarily restrict shippers rights to raise legitimate disputes with Vector; and

¹ *VTC Appeal to Allow Balancing Arrangements Change Request* Genesis Energy submission to the Gas Industry Company, 22 January 2013.

- are not necessary for the stated objective of ensuring alignment with the back to back (B2B) arrangements in the Maui Pipeline Operating Code (“MPOC”). We note that the GIC’s discussion paper also expresses the view that there are unlikely to be direct efficiency benefits from these changes².

We consider that it is significant that all shippers have unanimously opposed this aspect of the Change Request for largely similar reasons.

Genesis Energy would support this Change Request, if the proposed changes to disputed invoices were removed. The remaining proposed changes to the Imbalance Limit Overrun Notice process and the Peaking arrangements are clearly linked to the objective of ensuring consistency with the B2B arrangements in the MPOC and are reasonably necessary for this purpose. We would support these changes, even though we remain of the view that further changes to the allocation of balancing costs to VTC Shippers³ may be necessary to fully achieve a ‘causer pays’ approach.

Risk of precedent effect if Change Request is approved

Genesis Energy has, in a number of submissions, expressed its concern about Vector using a single change request process to progress unrelated changes to the VTC. We do not consider that this is an effective or constructive use of the change request process. The result is that the GIC may have to approve unnecessary and controversial changes, simply, because they are bundled together with changes which will deliver benefit for the industry. We are concerned that if the GIC approves this Change Request, it will be endorsing this approach going forward. In our view, this would create a troubling precedent for the sector that outweighs the benefits of this Change Request.

We recommend that the GIC decline this Change Request and that Vector re-submit a new change request with the dispute procedure changes removed.

² Refer page 12, *Draft recommendation on the “27 November VTC Change Request Appeal (Balancing)”* GIC consultation paper dated 28 February 2013.

³ For example, currently MDL can issue a positive ILON to Rotowaro and a negative ILON to Frankley Road on the same day so it is correct to allocate cash outs by individual pipe. Post the implementation of the MPOC B2B change request this will not happen. Any balancing will only be in one direction on a day and will take account of the total Maui pipeline gas balance position. Because MPOC aggregates imbalance across the Maui pipeline i.e. positive balances are offset against negative imbalances and only the net position is cashed out, it makes sense to do the same across the Vector pipes i.e. allocate on aggregate Shipper mismatch (not individual pipe positions). This change to the allocation basis under the VTC will better achieve the key objective of allocating balancing costs to causers.

If you would like to discuss any of these matters further, please contact me on 04 495 6537.

Yours sincerely

A handwritten signature in black ink that reads "Lizzie Wesley-Smith". The signature is written in a cursive, flowing style.

Lizzie Wesley-Smith
Regulatory Advisor