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10 January 2018

Ben Gerritsen
GM Commercial & Regulation
First Gas Limited
Level 6, Resimac House
45 Johnston Street 6011
WELLINGTON

Dear Ben

GTAC Letter of Understanding

In our submission on the "Second Revised Draft GTAC" (**second draft**), Genesis Energy Limited (**Genesis**) wrote that it intended to pursue the signing of a formal letter of understanding with First Gas Limited (**First Gas**).

This letter is intended to confirm the intentions that have been expressed in conversations between Genesis and First Gas during the development of the gas transmission access code (**GTAC**) to-date regarding the following material matters:

- The status of existing supplementary agreements;
- The negotiation of new supplementary agreement(s);
- The specific hourly quantity/daily quantity (**HQ/DQ**) that will apply at the Huntly dedicated delivery point (**DDP**).

Genesis considers the joint signing of this letter to be crucial for us to understand the benefits of the GTAC, and consolidate our view whether it will be materially better than the two existing codes.

Background

Since 2016 Genesis has been engaged with First Gas on the design of the GTAC and has supported the transition to new transmission arrangements that are materially better than the status quo.

We have noted our concerns that matters of particular significance to Genesis – i.e. those referred to above – would not be addressed until 2018. We wrote in our submission on the second draft that while we appreciated First Gas' apparent willingness to negotiate favourable terms for both Genesis and First Gas, we faced unacceptable uncertainty in the absence of any confirmation of such intent, without which we cannot assess the risks and opportunities of the GTAC for our customers, our business and our shareholders.

To suitably address these concerns, Genesis proposed formalising both parties' common intentions via the joint signing of a letter of understanding. The common intentions as we understand them are set out below.

Status of existing supplementary agreements

Genesis understands that First Gas' intention is to honour the terms of any existing supplementary agreements, and engage with counterparties on a case-by-case basis to give effect to the new GTAC. First Gas has also said it will resolve any pricing issues through good faith negotiation, and that it expects the overall economic balance of term contracts to remain unchanged.

We support this approach and look forward to undertaking good faith negotiation with First Gas in the coming months. As the first step in that process, via First Gas' counter-signing of this letter, Genesis can rely on securing price certainty for the term of the contract as is currently provided in our three Kupe supplementary agreements under the Vector Transmission Code.

Genesis' transmission pricing under these contracts is subject to adjustment as per the Producer Price Index (PPI) through to 2023. We consider that when these contracts are transitioned under the GTAC, a portion of the transmission costs should continue to only be adjusted to reflect inflation, and First Gas agrees to negotiate this portion in good faith with Genesis by counter-signing this letter. Both parties commit to considering analysis provided on the appropriate portion of charges to be subject to indexation and the most appropriate index for adjusting transmission costs.

Negotiation of new supplementary agreements

As per the GTAC, Genesis can request First Gas enters a supplementary agreement that may vary the terms and conditions of the code. In our conversations with First Gas to-date, we consider First Gas has made clear its intention that we will be provided the opportunity to enter into good faith negotiations for a supplementary agreement on the terms set out in sections 7.1-7.6 of the GTAC to operate the Huntly power station. By counter-signing this letter, First Gas confirms this intention.

In our view, this letter also provides the opportunity to agree that the negotiation would include fair consideration by First Gas of an appropriate HQ/DQ for the Huntly DDP based on analysis provided by Genesis of what we believe is a reasonable multiplier. We have discussed with First Gas that '1.8' may be an appropriate HQ/DQ having undertaken modelling using current data, and by counter-signing this letter First Gas agrees it will take such evidence into account during contract negotiations. Genesis acknowledges that an analysis of the impact on other transmission system users will be required for First Gas to reach a conclusion on the appropriate Specific HQ/DQ for the Huntly DDP.

We also consider the agreement could include: a specific HQ/DQ that is fixed for an agreed length of time e.g. five years, or until some trigger event were to happen; and, provisions that contemplate how to resolve future material changes in circumstances e.g. regulatory change, changes to transmission system operating conditions or significant change to the electricity market. Genesis notes that the GTAC envisages an annual review of Specific HQ/DQ, and the benefits of having a fixed term would need to outweigh the value of having greater flexibility in setting this parameter. By counter-signing this letter, First Gas agrees to consider such matters during good faith negotiations with Genesis.

Specific HQ/DQ at Huntly

Genesis notes that First Gas intends to determine a specific HQ/DQ for the Huntly DDP at its discretion, and that this will be subject to change. By counter-signing this letter, First Gas commits to having regard for the need to balance the safe and reliable use of the transmission system with the delivery of efficient transmission services to shippers with unique load profiles e.g. fair consideration of any evidence Genesis can provide of its transmission demand profile at Huntly. Genesis acknowledges that negotiation on these points will be informed by analysis of current and potential transmission system operating conditions to enable First Gas to assess impacts on other transmission system users.

Legal Status of this letter of understanding

This letter is binding on the parties and sets out the parties understanding with respect to the issues raised in this letter.

Proposed next steps

Genesis proposes that if First Gas agrees this letter is a fair representation of the common intentions shared by Genesis and First Gas then it should return a signed copy by 17 January 2018.

If First Gas does not agree this is a fair representation of common intentions between the two parties, then it should return a marked-up copy with suggested changes and the final version can be agreed via negotiation.

We welcome any further discussion so please do not hesitate to contact myself by email: tracey.hickman@genesisenergy.co.nz or Duncan Jared by email: duncan.jared@genesisenergy.co.nz or phone: 09 951 9145.

Yours sincerely



Tracey Hickman
Executive General Manager
Generation and Wholesale
Genesis Energy

Countersigned by:



Ben Gerritsen
General Manager
Commercial and Regulation
First Gas