



20 March 2009

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Dear Ian

VTC Change Request Appeal – BPP Trustee Debt

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company regarding Vector Gas Limited's appeal concerning a request to change the VTC to enable the BPP Trustee to incur debt.

Genesis Energy does not support the change request.

Genesis Energy does not accept that it is necessary or desirable for the BPP Account to be able to go into overdraft because this would:

- reduce the incentive on the BPP Trustee to pursue slow payers;
- encourage VTC shippers not to pay on the expectation that unpaid costs would eventually have to be socialised; and
- raise the issue of what should happen if the overdraft limit is reached.

Genesis Energy does not believe that the "ability to borrow" was an inadvertent omission during the VTC drafting process. Various sections of the VTC indicate otherwise, for example:



- clause 8.20 refers to interest earned, while there are no references to interest paid;
- clause 8.24 refers to “an interest bearing account” and that “the BPP Account will not be subject to any charge or encumbrance in favour of any bank”; and
- the BPP Trustee has remedies available through the prudential requirements set out in section 14 of the VTC.

Genesis Energy believes it is feasible for the BPP Trustee to operate without an overdraft facility because:

- all costs charged to the BPP are allocated to VTC shippers;
- Genesis Energy is unaware of any issues to date with the operation of the BPP (this may suggest that an audit report would be timely);
- the BPP Trustee has remedies through the prudential requirements of the VTC; and
- Genesis Energy’s understanding is that the VTC does not require the BPP Trustee to make payments out of the BPP in excess of corresponding payments into the BPP.

Genesis Energy notes that in the electricity market, the clearing manager deals with non-payment or partial payment from purchasers by making pro rata payments to generators.¹

If Vector believes that the VTC requires it to make payments from the BPP in excess of receipts, then Genesis Energy’s preference would be to amend the VTC to align with the approach taken in the electricity governance rules rather than to establish an overdraft facility for the BPP Trustee.

If you would like to discuss any of these matters further, please contact Ross Parry on 04 495 3348.

¹ Electricity Governance Rules, Part H, Rule 8.6.

Yours sincerely

A handwritten signature in black ink, appearing to read "J Carnegie". The signature is fluid and cursive, with a large initial "J" and a stylized "C" followed by "arnegie".

John A Carnegie
Regulatory Affairs Manager
Genesis Energy