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11 March 2014

Ian Wilson
Gas Industry Company
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Dear Ian

**Submission on
14 February 2014 MPOC Request**

1. Vector Gas Limited and Vector Gas Contracts Limited ("Vector") welcome the opportunity to make a submission on Maui Development Limited's ("MDL") Change Request to the Maui Pipeline Operating Code ("MPOC") dated 14 February 2014 ("change request").
2. This submission is not confidential and we are happy for it to be made publicly available.
3. Vector's contact person for this submission is:

Anna Carrick
Manager, Natural Gas Trading
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Overview

4. We believe that some of the amendments proposed are not contentious. However, we do not agree that all of the proposed amendments are non-contentious and, overall, the change request does not advance the purposes of the Gas Act 1992 ("Gas Act") or the Government Policy Statement on Gas Governance ("GPS").
5. Further, we are disappointed that against the background of industry discussions as part of the GTIP work stream, to introduce consultation to change request procedures under the MPOC and the Vector Transmission Code, MDL submitted this change request without consulting the other parties to the MPOC. Some of the issues raised in this submission may have been able to be addressed had they done so.
6. We submit that MDL should be invited to propose a new change request after it has consulted with the parties to the MPOC to address contentious issues.

Compliance with Gas Act objectives and Gas Governance principles

7. We submit that the change request does not advance the Government's policy objectives for the gas industry; *"to ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner."*¹

¹ GPS, April 2008

8. In particular, we consider that the change request is not fair or efficient. We also believe that the change request does not minimise barriers to competition in the gas industry² and does not exercise sustained downward pressure on delivered gas costs and prices.³

Trading Hub cash out – Special Terms and Conditions

9. The effect of the proposed changes is to allow MDL to agree the Trading Hub cash out provisions in special terms under an Interconnection Agreement (“ICA”) and therefore outside the terms of the MPOC. While any special terms need to be disclosed after being entered, we are concerned that any such special terms will lack transparency during negotiations and that there might be unintended consequences.
10. It is not clear how MDL proposes to structure its cash-out transactions for the Trading Hub:
 - (a) In the case of a Trading Hub with a negative imbalance, where will MDL buy gas from to sell to the Trading Hub? And how will those costs be recovered?
 - (b) If there is a positive imbalance in a Trading Hub, at what price will MDL sell the excess gas?
 - (c) If a Trading Hub is required to cash-out via the special terms in an ICA at a balancing gas price that is higher or lower than the spot price, what will happen to the difference. We assume it will be socialised through the gas tariffs, which is inconsistent with the principles of efficiency and sustained downward pressure on gas prices.
 - (d) If MDL intends to use the BGX to buy gas for the Trading Hub then the difference in prices between the BGX and the gas spot market allows parties who are allowed to trade on the BGX to arbitrage between the two markets.
11. The issue may be addressed by allowing the BGX to operate as an open Trading Hub in the same manner as emTrade. That would neutralise any potential to make unfair profitable cash-out trades and would be consistent with the principle of sustained downward pressure on gas prices and minimisation of barriers to competition (i.e. as the result of competition between traders on all markets). Keeping the BGX as a separate, restricted, market, arguably has the opposite effect. However, the option of an unrestricted BGX is not included in the change request.

Balancing Gas and Balancing Agent - sections 3A.4 & 11.10

12. The amendments to the definition of Balancing Gas Call and Balancing Gas Put, and 3A.4 appear to be creating a distinction between Balancing Gas and other Gas and how title to such Balancing Gas is transferred. We are concerned that this will create an inconsistency with the provisions relating to nominations and the transfer of title.
13. The amendments proposed to section 3A.4 and 11.10 include references to MDL’s “published terms and conditions”. If allowed, the change request would incorporate those terms and conditions into the MPOC. MDL already has rights under the MPOC to operate Standard Operating Procedures associated with Balancing Gas and to change these without consultation. This, combined with MDL’s published terms and

² Section 43ZN(b)(ii) Gas Act 1992

³ Section 43ZN(b)(iv) Gas Act 1992

conditions for Balancing Gas that MDL proposes to refer to in the MPOC, means that MDL can now change the Balancing Gas service, which is fundamental to the MPOC, at any time for any reason without consultation and without oversight from the GIC.

14. We submit that these changes are contrary to the GPS principle of fairness.

Non-contentious changes

15. We do not oppose the amendments proposed to allow for more than one trading hub.
16. We do not oppose the amendments proposed where needed to distinguish between physical and notional welded points.
17. We do not oppose changes proposed under "accuracy" that do not purport to codify MDL's published terms and conditions.
18. We do not oppose any of the amendments proposed as "clean up".

Recommendation

19. We recommend that the GIC decline to approve the change request. We submit that the GIC should invite MDL to submit another change request after consulting with the parties to the MPOC on contentious issues.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Anna Carrick', with a large, stylized initial 'A'.

Anna Carrick
Manager Natural Gas Trading

