

22 March 2012

Ian Wilson  
Gas Industry Company  
PO Box 10141  
Wellington

Dear Ian

**SUBMISSION RE VTC CHANGE REQUEST APPEAL**

This submission is with respect to the Vector Transmission Code (VTC) Change Request proposed by Vector in November 2011 that was subsequently rejected by Shippers and is the subject of an appeal in accordance with Section 25 of the VTC.

The Change Request proposal contained several changes to the VTC which on balance were seen as detrimental to shippers in aggregate. The positive changes proposed by Vector following consultation with shippers include:

- Section 8.13 Peaking
- Section 8.21 Corrections

Changes that were mainly for the benefit of Vector and at the expense of shippers include:

- Section 6 Delivery Point Quantities and Allocation
- Section 8.36 Allocation of BPP Amounts on retailer insolvency
- Section 16 Invoicing and payment

The proposed introduction of a new Section 8.36 was of particular concern to shippers and but for its inclusion, may well have meant that the Change Request would have received sufficient support to have been approved.

The new Section 8.36 provides for Vector to reallocate BPP costs incurred by an insolvent shipper to other shippers. This change is unacceptable to Nova for the following reasons:

- Shippers have no means of exercising any control over managing other retailer/shipper default risk
- Shippers contract with Vector for transmission services is bilateral in nature and shippers have no contractual nexus in order to be able to pursue another defaulting retailer/shipper

- Vector is the appropriate party to bear retailer default risk as they are the party that has rights under the VTC in relation to invoicing, payment, dispute resolution, and prudential supervision.

For these reasons, Nova (and we believe other retailers) did not support the change request and has led to MRP submitting a separate change request that shippers have approved.

In general we see the existing Memorandums of Understanding (MOU) between the GIC and MDL and Vector as contributing to an incentive for parties proposing changes to the MPOC and VTC to bundle positive changes with unrelated negative changes. The current MOU arrangements regarding rule changes do not provide for the GIC to consider the separate elements of a change proposal and instead the GIC must approve or reject a proposal in its entirety.

Nova believes that it may be more appropriate for the GIC to review the current MOU arrangements with MDL and Vector and agree amendments that provide for:

- the consideration of rules change proposals (or appeals) in part as well as a whole;
- approval of rule change proposals subject to conditions including amendments to rule changes;

Such a change in Governance arrangements will reduce the incentives for bundling of unrelated rule changes and ensure that transmission arrangements can evolve efficiently and in timely manner.

Yours sincerely



Charles Teichert