GREYMOUTH GAS

20 December 2012

John Bright
Adviser
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Dear John,

RE: Vector Transmission Code: Appeal to Allow Balancing Arrangements Change Request

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make a submission on Vector Gas Limited's ("Vector") Vector Transmission Code ("VTC"): Appeal to Allow Balancing Arrangements Change Request dated 27 November 2012 (the "appeal") following an invitation from the Gas Industry Company Limited ("GIC") on 13 December 2012.

In our submission on the appeal, Greymouth Gas also refers to:

- Vector's VTC change request dated 30 October 2012 (the "VTC CR") pertaining to the appeal,
- Vector's VTC change request (the "VTC Disputes CR") pertaining to a 30 July 2012 appeal of the same (the "Disputes appeal"),
- The Memorandum of Understanding between the GIC and Vector dated 2008 (the "MoU"),
- The Memo from NERA Economic Consulting titled Assessment of the VTC Change Request (VTC Balancing Arrangements) dated 27 November 2012 (the "Nera Report"),
- The Maui Development Limited ("MDL") Maui Pipeline Operating Code ("MPOC") change request re balancing dated 13 October 2011 ("MPOC Balancing CR"), and
- The VTC, with undefined capitalised terms pertaining to the same.

Greymouth Gas considers that the appeal is complex and covers a range of prima facie wider concepts and issues which must be assessed before looking at a direct analysis of the appeal. Accordingly, our submission will cover the following topics:

- GIC process and the potential for conflict of interest,
- Vector's prima facie position on the MPOC Balancing CR post GIC support of the same,
- Interpreting the appeal in the context of the MPOC Balancing CR,
- Analysis of the appeal, and
- The Nera Report and how this adds little value.

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1) GIC process and the potential for conflict of interest

Greymouth Gas notes that the GIC must follow the process set forth in the MoU. Even though the appeal is at an early stage, Greymouth Gas has concerns about three key items in this regard and we call for GIC to alleviate our concerns:

1.1 Change of process

GIC has previously said that '[it would process the appeal] at the conclusion of the Disputes appeal' and that 'GIC processes appeals sequentially'[1], but has since changed its mind and will consider both concurrently.

While this is not covered in the MoU, such a change in standard GIC process should, in our opinion, require full industry support. Greymouth Gas does not support GIC making the rules up as it goes and, although the reasoning is sensible in this case, the revised process should address the issues raised in 1.2 and 1.3 below.

1.2 Timetable

The GIC's final recommendation is due on 8 April 2013[2]. This is a problem because it does not allow sufficient time for Vector to consider a further VTC change request if the appeal is unsuccessful and before prima facie roll-out of the MPOC Balancing CR on 1 June 2013.

Greymouth Gas considers that the main solutions to this are:

- Shorten the period that GIC has allowed itself to consider submissions and write reports (and for industry to provide further submissions) from (approximately) one month in each case down to two weeks (which is also about the same time that industry has to submit on the appeal given the timing of its release ahead of the holiday period), or

- Liaise with MDL and advise them that the roll-out of the MPOC Balancing CR may be delayed if the GIC does not support the appeal, until such time as Vector has incorporated key elements of the MPOC Balancing CR into the VTC.

1.3 Management of potential conflicts of interest

The way that the appeal and its context are structured, there are three potential conflicts of interest which Greymouth Gas urges the GIC to manage appropriately. These are as follows:

a) The timetable discussion in 1.2 above could sway the GIC to find favour with the appeal given the current counterfactual that there is not enough time for a subsequent VTC change request to incorporate back-to-back functionality if the MPOC Balancing CR is rolled out on 1 June 2013. This indirect GIC-inflicted pressure on itself is unacceptable and is further justification as to why a solution to 1.2 should be implemented.

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[1] 6 December 2012 GIC email to industry

[2] per GIC website

b) By concurrently considering the appeal and the Disputes appeal, GIC has put itself in a potential conflict of interest situation pertaining to the Disputes appeal[3] in that may be incentivised to support the Disputes appeal (which canvasses some similar topics to the appeal) on the basis of it factoring in early thought processes pertaining to the appeal.

c) GIC has already supported the MPOC Balancing CR, thus there is a potential conflict of interest in that GIC now needs to consider whether to support the appeal which, in theory, should be an extension of the MPOC Balancing CR into the VTC. However, this is not the case and the appeal should be assessed independently, with reference to the status quo, and pertaining to the MoU.

Regarding b) and c) above, would the GIC please advise industry how these potential conflicts of interest are being managed?

2) Vector's prima facie position on the MPOC Balancing CR post GIC support of the same

On 5 October 2012, Vector submitted a VTC change request to industry that was similar to the VTC CR, but it did not receive the required Shipper support. Shippers raised many concerns and Vector did not appeal that change request.

Vector then submitted the VTC CR to industry, although Shippers' concerns were not materially addressed in the VTC CR. In addition, Vector, at all times, has not been willing to sit around a table, in good faith, with industry and generate the VTC CR collaboratively, either in the case of the second VTC change request or the first for that matter.

This has resulted in the VTC CR, which is a most hostile change request.

It is common public knowledge that Vector did not support the MPOC Balancing CR and, following GIC's support of the same, lodged an objection notice[4] to the MPOC Balancing CR under one of their contracts with MDL. Greymouth Gas understands[5] that Vector essentially has the power to veto the MPOC Balancing CR if the implications on Vector's business are materially unreasonable. Greymouth Gas is comfortable with Vector's approach on this because Vector's concerns are reasonable and were contained within the subset of Shipper concerns about the MPOC Balancing CR.

But now Vector appears to have backed down from its prima facie position on the MPOC Balancing CR and has proposed changes to the VTC that would allow it to remove its objection notice. However, this merely pushes Vector's issues further downstream and throws a hospital pass to the Shippers.

Aside from not knuckling down and working collaboratively through the issues, the VTC CR is a metaphor[6] for Vector throwing its hands in the air and chucking the issues into the too-hard-basket.

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[3] but not the appeal, as the appeal has allowance for either outcome from the Disputes appeal process
[4] or similar
[5] paraphrasing and at a high level
[6] and personification

This is a travesty for NZ Inc. and begs the question about why GIC supported the MPOC Balancing CR, without a quantitative cost-benefit analysis, when no party[7] in industry outright supported the MPOC Balancing CR.

It also places Shippers in a difficult position because Shippers do not have contractual ability to lodge an objection notice with Vector or MDL like Vector has done, but must arguably rely on the GIC to make the correct decision on the appeal.

Greymouth Gas purports that because the VTC CR merely pushes unresolved balancing issues from an MDL-Vector dynamic to a Vector-Shipper dynamic (which is both unfair and unreasonable), then this is grounds for GIC to consider the VTC CR to be dynamically vexatious.

Accordingly, Greymouth Gas calls for the GIC to strike out the appeal and direct Vector to work collaboratively through the issues at the heart of their objection notice, with either MDL or with Shippers or with both.

If GIC does not consider the appeal to be vexatious, given the context described above, Greymouth Gas urges the GIC to accurately consider the VTC CR having regard for the key issues in Vector's objection notice with MDL – those issues arguably to be canvassed and addressed in our analysis of the appeal.

3) Interpreting the appeal in the context of the MPOC Balancing CR

Greymouth Gas considers that the appeal must be considered in the context of the MPOC Balancing CR. In this section, we ring-fence the back-to-back and ILON removal issue, and, pertaining to our whole submission, this section is notwithstanding our analysis of the appeal.

Yes, the VTC CR does make VTC changes to incorporate the back-to-back and ILON removal elements of the MPOC Balancing CR. However, this is not an improvement on the status quo; it is merely a continuation of the status quo, from the VTC's perspective.

In other words, Vector, as Welded Party currently replicates the MPOC Cash-out concepts in the VTC and extends these to Shippers. All the VTC CR does is that Vector, as Welded Party, replicates the MPOC Cash-out concepts in the VTC and extends these to Shippers.

So while the MPOC will change because of the MPOC Balancing CR[8], the conceptual issues in the VTC do not change as they still mirror and extend into the VTC whichever balancing framework is or is[9] about to be in the MPOC.

This is very important because it is not an *improvement* on the status quo.

That is, the MPOC Balancing CR, if rolled out, would bring the back-to-back and ILON removal concepts into the VTC. The VTC CR would only facilitate this (not change, worsen or improve upon the concept).

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[7] apart from MDL who lodged the MPOC change request, and Shell, a part owner of MDL
[8] subject to disputes or appeals
[9] prima facie

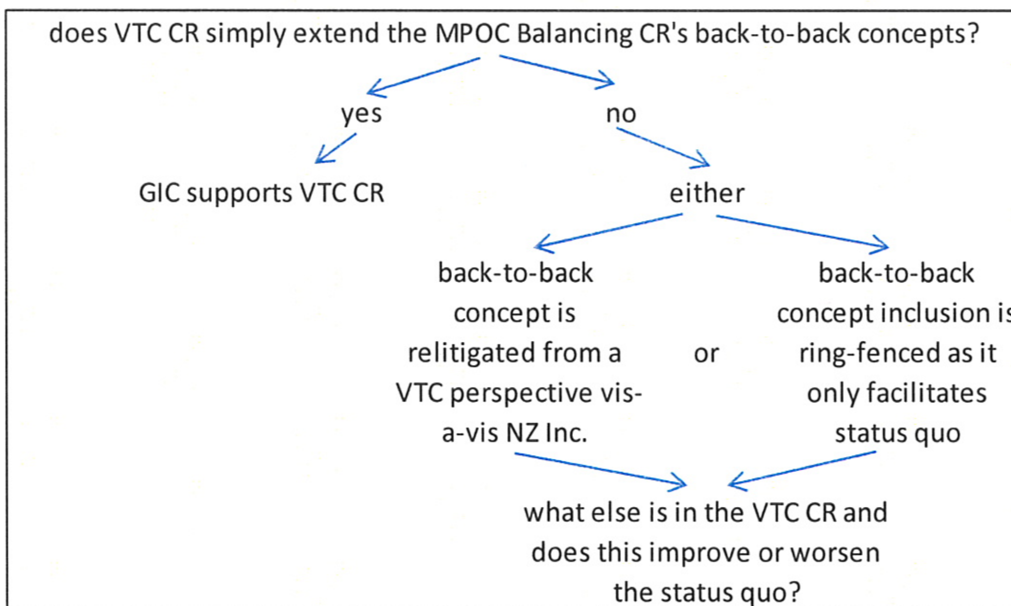
Notwithstanding that Greymouth Gas does not support the MPOC Balancing CR[10], if all the VTC CR did was to catch-and-pass the new MPOC balancing regime, then the VTC CR should be supported by the GIC because it continues (not worsens or improves) the status quo.

However, the VTC CR goes above and beyond what the MPOC Balancing CR envisaged (as alluded to in section 2 and expanded upon in section 4), thus the fact that the back-to-back and ILON removal concepts in the VTC CR neutrally incorporate the concept changes from the MPOC, this must not be given any weight by the GIC in its analysis.

Alternatively, the other way of looking at what weight to place on the back-to-back and ILON removal concept within the VTC CR is that if it is not ring-fenced (and is therefore not considered to be neutral), then the actual back-to-back concept should be reanalysed solely from a VTC perspective, and notwithstanding GIC's prior determination on the MPOC Balancing CR, to determine whether the back-to-back concept improves or worsens the status quo in the context of the VTC.

If this line of thinking is progressed, then Greymouth Gas is strongly of the view that the case for change has not been met (e.g. the lack of balancing disputes in the last 2½ years, the prima facie argument that there will be a productive cost to NZ Inc.). Therefore GIC should perform a quantitative cost-benefit analysis.

So the process should be as follows:



Greymouth Gas contends that regardless of how the back-to-back and ILON removal changes are analysed vis-a-vis to how they fit into the VTC CR, the key to analysing and deciding upon the appeal will come down to what else is in the VTC CR that isn't in the MPOC Balancing CR.

4) Analysis of the appeal

The VTC CR has three key elements:

[10] and reserves its rights further in this regard

- Incorporating back-to-back balancing and ILON removal,
- Incorporating the new Peaking Charge, and
- Limiting the scope for disputing balancing invoices in the VTC.

We have canvassed and ring-fenced the first element. The second element is in the MPOC Balancing CR, but the third element is not. The key to analysis of the appeal lies with the second and third elements. The following discussion[11], if referenced to the VTC, references the marked-up version of the VTC pertaining to the VTC CR.

4.1 Incorporating the new Peaking Charge

4.1.1 Yes, the VTC CR includes for the provision of the Peaking Charge, and yes, section 8.13(b) of the VTC is amended to pass through Peaking Costs relating to Peaking Charges.

4.1.2 However, despite section 8.13(b) of the VTC alluding to claiming Peaking Costs from Vector, Shippers and Non-Code Shippers, this is qualified with complete reference to the Peaking Allocation Methodology, which is wholly contained in Schedule Nine of the VTC.

4.1.3 Schedule Nine and other parts of the VTC contain a number of problems which, when considered in aggregate, show that Vector has no ability (and maybe no intent) to pass Peaking Costs onto themselves. For example:

<u>Receipt Quantities</u>

4.1.3.1 Section 1.1 of Schedule Nine says that Vector will calculate Vector, Shipper and Non-Code Shipper's relevant Receipt Quantities. However, Receipt Quantity, as defined in section 1.1 of the VTC, pertains to 'Gas received by Vector in respect of the relevant TSA, as determined in accordance with section 6.1'.

4.1.3.2 Does Vector have a TSA with itself? If not, then any Receipt Quantity cannot be applicable to Vector, thus the Peaking Allocation Methodology would not apply to Vector's receipts.

4.1.3.3 Section 6.1 of the VTC only pertains to Shippers. Greymouth Gas understands that while Vector is a shipper (small 's') for transport of fuel and UFG gas, it is not a Shipper (large 'S') as defined in section 1.1 of the VTC. This is evidenced by the formulae and clauses in sections 8.17 and 8.19 of the VTC ("Cash-out Allocation Methodology"), where Vector is explicitly accounted for in addition to Shippers[12].

4.1.3.4 Therefore Vector can have no Receipt Quantity at any Receipt Point, thus no contribution to Peaking Costs under the Peaking Allocation Methodology.

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[11] and capitalised terms, if the context requires

[12] incidentally, the Cash-out Allocation Methodology works because Vector's obligations and liabilities are accounted for by way of the Vector Imbalance and the Vector Running Imbalance, which themselves reference Vector's receipt quantities (small 'r' and 'q'), adding weight that the Peaking Allocation Methodology does not capture Vector's receipt quantities.

4.1.3.5 Vector can only have receipt quantities, but this is not part of the Peaking Allocation Methodology.

4.1.3.6 It is therefore unclear what, if Vector did intend for them to pay some Peaking Costs, the necessary make-up of its receipt quantities would be, e.g. fuel gas, UFG gas and/or whether receipts pertaining to this (and/or pertaining to Vector management of its Vector Running Imbalance) could even be covered under the ambit of section 6.1 if amended[13].

Delivery Quantities

4.1.3.7 Section 1.2 of Schedule Nine says that Vector will calculate Vector, Shipper and Non-Code Shipper's relevant Delivery Quantities. However, Delivery Quantity, as defined in section 1.1 of the VTC, pertains to 'Gas taken by a Shipper in respect of the relevant TSA, as determined in accordance with section 6.5'. This explicitly references Shippers, and Vector is not a Shipper as we understand it.

4.1.3.8 Furthermore, section 6.5 of the VTC also only pertains to Shippers.

4.1.3.9 In addition, unlike for receipt quantities, delivery quantities (small 'd' and 'q') pertaining to Vector are not captured as a concept within the definitions of Vector Imbalance and Vector Running Imbalance as specific mention is made to Fuel and Gas Vented.

4.1.3.10 Notwithstanding that it cannot even have delivery quantities; this therefore begs the question about whether Vector could even have Fuel and Gas Vented at *Delivery Points*. In other words, does Vector's Fuel and Gas Vented (and maybe UFG) occur at a Delivery Point as defined in section 1.1 of the VTC, or at an actual or deemed meter being part of a Pipeline but not necessarily part of a Delivery Point?

4.1.3.11 All of this proves that Vector can have no Delivery Quantity at any Delivery Point, thus no contribution to Peaking Costs under the Peaking Allocation Methodology.

Interpretation

4.1.4 This begs the question of whether, notwithstanding 4.1.3.3 above, we could interpret Vector to be a Shipper under the VTC or Receipt Quantities to have an added context.

4.1.4.1 Section 1.1 of the VTC provides explicit definitions and does not allow for the definitions to be interpreted in context.

4.1.4.2 Interestingly, section 1.2(i) of the VTC does allow for the use of context pertaining to Shippers, however, this only applies for the purposes of interpreting a TSA.

4.1.4.3 Furthermore, section 1.2(j) of the VTC expands on the definition of Shipper and TSA when those terms are used in section 8 of the VTC (but not in section 6 or Schedule

[13] it therefore makes sense to approach the Peaking Allocation Methodology along the same lines as the Cash-out Allocation Methodology by ring-fencing and addressing Vector contribution directly in the clauses/formulae (with sub references to specific terms) rather than to attempt using the same generic definitions that means Vector is not currently captured in the Peaking Allocation Methodology.

Nine), and notwithstanding this, these expanded terms make it further clear that there is no room to interpret that Vector is a Shipper.

4.1.4.4 In addition, section 1.2(m) of the VTC says that the contra proferentem rule does not apply to the VTC. In other words, given Vector's unilateral appeal and the ambiguous nature of its intent and wording, this wouldn't be able to be used against Vector when interpreting Schedule Nine of the VTC.

4.1.4.5 Finally, page 2 of Schedule 1 (summary of proposed amendments) of the VTC CR says 'these [Peaking Charge] amendments will ensure Vector is able to recover from Shippers any payment it makes for a Peaking Charge'.

4.1.4.6 It seems like Vector's intent is therefore not to include itself within cost recovery or Peaking Charges and the Peaking Allocation Model is carefully crafted to ensure that this is the case when delving deeper than a prima facie read of the VTC.

Line Pack

4.1.5 Line Pack is not canvassed in the Peaking Allocation Methodology. On page 3 of the appeal, Vector says 'any balancing costs as a result of an increase [or decrease?] to the Line Pack should be borne by Shippers, as they caused the need for the Line Pack to be managed'. This is only part of the picture and Vector misses a number of pertinent points.

4.1.5.1 Vector caused the need for the Line Pack to be managed by becoming a TSO and permitting Shippers to transport Gas. Vector must take some responsibility for being in the business that it is in.

4.1.5.2 The Cash-out Allocation Methodology does factor in Line Pack[14] in terms of balancing cost recovery so Vector's points about the same for the Peaking Allocation Methodology seem to be without basis.

4.1.5.3 This arguably factors in the previous point, i.e. that Vector has responsibility for managing or governing the big picture, and it also factors in that Vector is responsible for bits of gas that Shippers are not or that do not belong to Shippers (and this swing can go either way for Vector, which is why it can purchase or sell UFG gas in addition to purchasing Fuel gas).

4.1.5.4 As Vector points out in its VTC CR, Line Pack can also be impacted by Vector where Vector has not acted as an RPO in operating its compressors. There is no provision to account for this in the VTC CR.

4.1.5.5 Furthermore, Vector is also causing Line Pack movements at Frankley Road and Pokuru 2 (and maybe even Temple View) depending on how it manages its Welded Points, canvassing issues such as bi-directionality, interaction with the 200-line and operational options with Pokuru 1, and opening the closed valve respectively. There is no provision to account for this in the VTC CR.

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[14] Line Pack is part of UFG which is part of Vector Imbalance and Vector Running Imbalance

Analysis of appeal

4.1.6 The status quo sees Vector not recovering Incentives Pool Debits from itself. However, the status quo is prima facie changing towards a tighter allocation of costs to causers.

4.1.7 It is therefore reprehensible for Vector to not allocate Peaking Costs to itself pertaining to its actions as a shipper (small 's').

4.1.8 Furthermore, it is inappropriate that Vector has not proposed to codify (or even to consider) issues like an RPO caveat and allocating costs to itself pertaining to the non-Shipper caused Line Pack movements which Vector can control.

4.1.9 While Schedule Nine of the VTC does reasonably incorporate the concept of Peaking Charges and the fair allocation to Shippers, it does not incorporate the allocation of Peaking Charges to itself which is in direct conflict with the principles of the MPOC Balancing CR.

4.1.10 This is contrary to sections 43ZN(a) and (b)(v) of the Gas Act 1992 (the "Act") which call for infrastructure and security of supply arrangements to be efficiently managed.

4.1.11 There are no productive efficiency issues regarding Vector not having obligations for Peaking Charges. However, this is allocatively inefficient in that costs cannot, even reasonably, go to the appropriate causers as envisaged by the MPOC Balancing CR.

4.2 Limiting the scope for disputing balancing invoices in the VTC

4.2.1 Although Vector purports to have been 'stuck in the middle' for a long time on balancing issues[15], the MPOC Balancing CR did not seek to address or solve this issue, thus the proposed changes to section 16.17 of the VTC are completely in addition to the MPOC Balancing CR.

Scope

4.2.2 Vector is seeking to stop Shippers disputing a balancing invoice when a Shipper has a concern with an MPOC action, noting that Vector (not Shippers) has the relationship with MDL.

4.2.3 This change will remove all recourse for Shippers to dispute fair and reasonable disputes (be they manifest error or issues of interpretation), indirectly with MDL, via raising disputes with Vector. From a NZ Inc. perspective, this does not provide for any dispute resolution, it rests power and control with a TSO, and it will lead to allocative inefficiency if MDL and the MPOC, by Vector's doing, is beyond reproach by Shippers.

4.2.4 Furthermore, with no Shipper ability to dispute balancing invoices, Vector will have much less incentive to raise balancing disputes with MDL (particularly on behalf of Shippers). And in addition, with this material change, there are no proposed changes

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[15] a necessary function of being a Welded Party and receiving income from transporting gas around the transmission system

to the VTC which could provide circumstances mandating when Vector needed to dispute with MDL.

4.2.5 However, the wording will also prevent Shippers disputing a balancing invoice with Vector (i.e. an allocation issue unrelated to the MPOC). While there is a caveat of manifest error, a dispute could arise pertaining to differing interpretation of VTC concepts that doesn't come under the realm of manifest error. This would be a travesty for efficiency if Shippers were barred from progressing fair and reasonable disputes about a non-manifest error VTC-allocation issue.

Step-In Rights

4.2.6 It has been suggested in various ways that step-in rights would be one way of solving the issue of Shippers being able to dispute invoices with MDL. Greymouth Gas agrees, but considers that for Vector's proposed invoice dispute change to have merit; step-in rights need to be simultaneously considered in the VTC CR.

4.2.7 In addition, the appeal needs to be assessed against the status quo. The status quo is that Shippers can dispute any balancing invoice with Vector, who will in turn facilitate resolution with MDL. The VTC CR removes this ability for Shippers.

4.2.8 Perhaps the key point is that step-in rights, while possibly requiring MPOC changes, would primarily require VTC changes including but not limited to how Vector uses actual/potential MPOC tools to minimise or apply for adequate protection from MPOC costs, situations when disputes could be raised pertaining to RPO issues, manifest error and interpretation, and differences in Shipper/Vector-MDL interpretation of MPOC pass-through clauses and/or their validity. First and foremost these are VTC issues – some could be MPOC issues, but if so, this would not obviate the need for simultaneous VTC changes.

4.2.9 Greymouth Gas notes that Vector was not willing to discuss step-in rights on a fair and even footing, even after it notified industry of the appeal.

Case for Change

4.2.10 Yes, Greymouth Gas understands that there is a potential problem in that Vector must pay cash to MDL regardless of whether it has received the cash from Shippers, thus Vector is essentially required to become involved in disputes.

4.2.11 However, notwithstanding the forthcoming analysis of appeal points, the case for change has not been made, i.e. the evidence upon which Vector is relying to justify the need to block Shippers from disputing balancing invoices (setting aside the problems with this from an Act perspective) is not compelling.

4.2.12 For example, Appendix 3 (Information on Balancing Disputes) in the appeal shows that the last two balancing disputes were won entirely by the Shipper. One previous balancing dispute was also part-won by the Shipper.

4.2.13 As another example, the last balancing dispute not wholly won by the Shipper was in June 2010, some 2½ years ago. There have been no balancing invoice disputes since.

4.2.14 The last material[16] balancing dispute not wholly won by the Shipper was in June 2009, some 3½ years ago.

4.2.15 Most of the balancing disputes were in 2009 and pertained to a completely different balancing environment compared to the status quo.

4.2.16 Based on the evidence, the case for change has not been met.

<u>Analysis of appeal</u>

4.2.17 The add-on concept of not allowing Shippers to dispute balancing invoices under the VTC is not efficient.

4.2.18 Yes, it solves Vector's cash and step-in issues, but it creates cash and step-in issues for Shippers, thus moving the problem away from the party best placed to deal with it.

4.2.19 This is allocatively inefficient because fair and reasonable balancing disputes across a variety of bases cannot be progressed by Shippers against either Vector or MDL. Vector would also be less good an agent and MDL would have fewer incentives as the MPOC would be beyond reproach by Vector's Shippers (even indirectly).

4.2.20 This is productively inefficient because the economy will not be using its resources efficiently, and MDL will not have the same degree of accountability.

4.2.21 This is dynamically inefficient because at the moment there is a mechanism for cross-code disputes (albeit a crude one), but under the VTC CR there will be no mechanism.

4.2.22 All of this points to this part of the VTC CR being in direct conflict with the objectives in section 43ZN(a), (b)(i), and (b)(v) of the Act.

4.2.23 Finally, one of the points of the Government Policy Statement on Gas Governance dated April 2008 ("GPS") is that GIC should pursue 'gas governance arrangements [that] are supported by appropriate compliance and dispute resolution processes'. The inability of Shippers to dispute and the lack of a dispute resolution process is not appropriate, therefore the VTC CR worsens this key GPS outcome.

5) The Nera Report and how this adds little value

The Nera Report is conflicted, as it was commissioned by Vector to support their position, and furthermore, it contains a number of incorrect, irrelevant or poorly thought through points. Ordinarily such a report should be disregarded for the purposes of analysing such an appeal.

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[16] >$50k and/or >365 days to resolve

However, Greymouth Gas contends that the Nera Report, together with a rebuttal of its contents (see below), should be included in the analysis of the appeal because it helps to prove that the VTC CR should not proceed. The Nera Report:

- Says that 'the VTC CR is being proposed to ensure that the balancing arrangements of the VTC and MPOC are compatible'. However, the VTC CR actually extends above and beyond the MPOC Balancing CR for reasons previously mentioned.

- Says that 'most of the changes are being proposed to ensure compatibility between the VTC and MPOC', which conflicts with the statement in the point above. It is also not correct, because only the back-to-back and ILON removal concept currently ensures a fair and reasonable level of compatibility (one in three).

- Has a one-line statement that '[Nera] considers [the GIC's assessment of the draft and final MPOC Balancing CR] to be appropriate'. It is surprising that this statement is not backed up with evidence. Greymouth Gas considers this statement to be inappropriate because the case for change was not made, i.e. the status quo did not illustrate that there was a problem and a quantitative cost-benefit analysis was not done as is contemplated in the ambit of a similar MoU but pertaining to MDL and the GIC. In such a circumstance where even MDL (and Vector) admitted that there was a significant productive loss to NZ Inc. from proceeding with the MPOC Balancing CR, it appears completely unreasonable and inappropriate not to have looked at the numbers. The whole issue is whether it costs more (and how much more) to achieve marginally improved allocative results. That Nera can reach a conclusion that GIC's analysis was appropriate, let alone without any supporting evidence or logic, is poor.

- Says that 'the proposed amendments to the VTC allocate the total cost of any peaking charge payment made by Vector to MDL between Vector and Shippers', but this does not appear to have regard for the lack of technical robustness in the VTC CR further to the points made above in section 4.

- Says nothing about Line Pack issues or RPO issues pertaining to Peaking Charges as part of a balanced analysis.

- Talks at length about a potential solution in solving the problem that the VTC CR creates with regard to disputing balancing invoices. However, the Nera Report misses the point in that the GIC must compare the VTC CR against the status quo, not against possible future options for change. Or, in other words, Vector should have canvassed further solutions in the VTC CR, not simply pushed the problem out to Shippers (and made NZ Inc. less efficient at the gain of Vector).

- Says that 'Vector is largely a passive party 'in respect of imbalances on the Maui pipeline]'. But Vector is anything but passive vis-a-vis its Vector Imbalance and Vector Running Imbalance obligations, and it being an asset owner (charging significant dollars to transport gas).

- Says that '[Shippers only being able to raise a balancing dispute for a manifest error] would be efficient'. But this just does not capture the dynamics at play further to the points made above in section 4.

- Says that 'the proposed methodology for allocating peaking costs would improve efficiency and better promote the objectives of the Act and GPS [compared to] the status quo'. Actually, the opposite is true because the MPOC Balancing CR seeks to put costs to causers, but Vector's Peaking Allocation Methodology Changes absolve it of all types of liability further to this regard based on the current wording of the VTC CR.

- Says that 'the potential for efficient disputes [is reduced]'. But it is not; the potential for efficient disputes is removed. There are no NZ Inc. benefits from stopping Shippers from being able to dispute balancing invoices.

- Says that 'there would be a reduction in inefficient disputes'. Greymouth Gas notes that it is difficult to reduce the number of disputes below zero as has been the case for the last 2½ years.

Net-net, the Nera Report fits nicely in the pocket of Vector's appeal but misses the bigger picture of VTC technicalities, status quo analysis and what is and is not efficient under the Act.

6) Conclusions

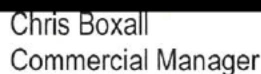
Vector's VTC CR and appeal is hostile, if not also vexatious, and pushes two key issues (peaking costs to causers and balancing invoice disputes) onto Shippers whilst appearing to absolve themselves of significant liability and responsibility.

This is not acceptable.

If one is to assume that the MPOC Balancing CR is going to come into effect, then it is absolutely essential that industry addresses the remaining issues and does not further-embed problems with the current arrangements.

Greymouth Gas considers that the GIC should not support the appeal for the reasons outlined in this submission.

Yours sincerely



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