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Ian Wilson  
Gas Industry Co.  
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23 March 2009

### **Re: VTC Change Request Appeal – BPP Trustee Power to Borrow**

1. Vector Gas Limited ("Vector") refers to the GIC's call for submissions on the Vector Transmission Code (VTC) Change Request lodged by Vector to provide the BPP Trustee with the express power to borrow (the "Change Request") and comments as follows:
  - 1.1. Vector's reasons for lodging the Change Request are set out in paragraphs 2 and 3 of the original Change Request. In summary, the purpose of the Change Request is to provide the BPP Trustee with an express power to borrow thereby enabling provision of an overdraft facility on the BPP Trust Account.
  - 1.2. Vector is of the view that the absence of an express power to borrow was an inadvertent omission from the VTC. The need for an overdraft was discussed and section 8.20 was drafted in part to ensure that Vector could recover the banking costs associated with an overdraft, from Shippers.
  - 1.3. Vector notes that:
    - (a) it currently holds the role of a TP Welded Party under the Maui Pipeline Operating Code (MPOC); and
    - (b) Shippers clarified as part of the VTC negotiations that Vector should only purchase Balancing Gas (other than from Maui Development Limited (MDL) pursuant to a ILON cash-out) when certain operational limits are reached – meaning that Balancing Gas is mostly purchased from MDL pursuant to the Operational Balancing Agreement (OBA) and ILON cash-out process.
  - 1.4. Accordingly, when Shippers do not match their nominations on the Maui Pipeline with their demand off the Vector Transmission System, imbalances necessarily arise which are then cashed-out by MDL.

- 1.5. In accordance with the MPOC, invoices are created (in the case of a sale of Balancing Gas) and must be paid by Vector by the 20th of the month; or if the invoice is not received until after the 10th of the month, then within 10 Days of receipt. In accordance with the VTC, BPP invoices usually go out on the 14th of the month and are payable within 10 Business Days. There is thus a fundamental disconnect between when funds are payable to MDL – the Shippers' Balancing Gas supplier of choice – and when funds are recovered by the BPP Trustee and paid to Vector.
- 1.6. A further disconnect occurs if one or more Shippers dispute a BPP invoice, as payment of the disputed portion of the invoice may not be received by Vector for many months whilst the dispute is being resolved through negotiation and/or arbitration or expert determination.
- 1.7. Shippers create the imbalance at TP Welded Points. Accordingly, Vector believes that it is Shippers that should bear the cost associated with making the payment to MDL in accordance with the terms of the MPOC. Under the current MPOC, that means that the BPP Account must have an overdraft facility – and that an express power to borrow is required in the VTC. This is in line with the GIC's final determination in respect of Contact's earlier appeals and in particular with the statement that "the costs of a balancing regime for the industry should fall on those who benefit from it".
- 1.8. Vector cannot, and should not be expected to, act as a bank for those Shippers who create imbalance and/or chose (for whatever reason) to dispute their BPP invoices. We refer you back to the submission we made in respect of Contact's Change Requests known as 4 and 5 – Vector took on the role of a TP Welded Party under the OBA to facilitate open access and on the strict understanding that it would not lose or gain from the arrangement.
- 1.9. You will be aware that MDL has issued Vector with a Letter of Demand in respect of an ILON cash-out in December 2008. Vector has not been able to fully pay the associated invoice – initially because of the timing issue referred to above, and then because Shipper(s) have raised BPP invoice disputes for that month. An overdraft facility would have enabled the BPP Trustee to have paid Vector and then Vector to have paid MDL in full and on time. The current arrangements mean MDL is out of pocket and Vector is potentially facing summary judgment proceedings. Meanwhile, Shippers continue to create imbalance with resulting ILON cash-outs and Incentive Pool claims.

1.10. Please contact me or Jo Murray if you have any queries regarding this submission or if we can be of any further assistance.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'PH', with a long horizontal flourish extending to the right.

Paul Hodgson  
Divisional Manager Gas Transportation