Establishment of Virtual or Notional Maui Welded Points at Vector Receipt Points and Delivery Points

Objectives

1. To better quantify and allocate responsibility for imbalance.
2. To increase the mechanisms available to users of Vector pipelines to manage balancing.
3. To reduce the exposure of TSOs to balancing risks and disputes.
4. To reduce the exposure of pipeline users to imbalances created by other users.
5. To require every receipt point on Vector's transmission pipelines, and every delivery point on Vector's transmission pipelines where the gas flow at that point may exceed **[? J/day],** and gas flow is controlled by a single party or group of parties (***"virtual welded party"***) to become MPOC welded points (***"virtual welded point"***).

Virtual Welded Point Status Mandatory

6. Every receipt point on a Vector transmission pipeline and every delivery point on a Vector transmission pipeline where the gas flow at that point may exceed **[? J/day**] will become a virtual welded point under the MPOC and VTC.
7. A virtual welded party will be responsible for operational imbalance at each virtual welded point.
8. If a VTC receipt point or delivery point is a virtual welded point then the contractual provisions applying to virtual welded points will apply to all gas flows and balancing at that point.

Contractual Structure

9. Every virtual welded party will execute a MPOC interconnection agreement and a VTC transmission services agreement.
10. Virtual welded parties shall have no rights to ship gas under the MPOC or the VTC.
11. A virtual welded party may be any party, including a shipper under a Vector transmission services agreement, contracting to take on the role of a virtual welded party under the VTC and MPOC. **[Note: There is no reason why a virtual welded party must be the owner of the facilities connected to a virtual welded point.]**

Technical Standards of Virtual Welded Points

12. Every virtual welded party shall meet the technical standards of section 5 of the MPOC (Technical Standards for Stations and Welded Points) and section 11 of the VTC (Technical Standards/Measurement and Testing).

Nominations at Virtual Welded Points and TP Welded Points

13. Every shipper wishing to nominate a quantity of gas for delivery to a virtual welded point must nominate that quantity of gas, to the Maui pipeline TSO and

the Vector pipeline TSO, at the virtual welded point and must nominate an equivalent quantity of gas at one of the following receipt points where the shipper will inject that quantity of gas into the Maui or Vector pipeline or where the shipper will acquire title to that quantity of gas from another shipper:

- MPOC welded point that is a receipt point;
- virtual welded point that is a VTC receipt point;
- TP welded point; and
- MPOC payback point.

14. Subject to paragraph 15, every shipper wishing to nominate a quantity of gas for injection at a virtual welded point must nominate, to the Maui pipeline TSO and the Vector pipeline TSO, that quantity of gas at the virtual welded point and must nominate an equivalent quantity of gas at one of the following delivery points where the shipper will take delivery of that quantity of gas from the Maui or Vector pipeline or where the shipper will transfer title to that quantity of gas to another shipper:
    - MPOC welded point that is a delivery point point;
    - virtual welded point that is a VTC delivery point;
    - TP welded point; and
    - MPOC payback point.
15. Every shipper wishing to nominate a quantity of gas for injection at a Maui pipeline receipt point or a virtual welded point receipt point and that quantity of gas is not nominated for delivery at one of the delivery points listed in paragraph 14 shall nominate an equivalent quantity of gas at the VTC residual delivery pooling point.
16. Nominations at a virtual welded point must meet the requirements of section 8.2 of the MPOC (the sum of nominations at receipt points must equal the sum of nominations at delivery points).

Trading at TP Welded Points

17. If a VTC shipper makes an injection nomination at a virtual welded point and the other arm of that nomination is a delivery to a TP welded point then the shipper must have a linked receipt point nomination at the TP welded point.
18. If a VTC shipper makes a delivery nomination at a virtual welded point and the other arm of that nomination is a receipt nomination to a TP welded point then the shipper must have a linked delivery point nomination at the TP welded point.
19. A linked nomination is a nomination that transfers title to an equivalent quantity of gas at the TP welded point.

Determination of Shipper Nominations at the TP Welded Point

20. The total nominations of a shipper under the MPOC for delivery at a TP welded point shall be the greater of zero and the sum of:
    - the sum of the shipper's nominations at virtual welded delivery points downstream of the TP welded point;

- the sum of the shipper's nominations at the VTC residual delivery pooling point downstream of the TP welded point; and
- less the sum of the shipper's nominations at virtual welded receipt points downstream of the TP welded point.
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21. The total nominations of a shipper for receipt under the MPOC at a TP welded point shall be the lesser of zero and the sum of:
    - the sum of the shipper's nominations at virtual welded delivery points downstream of the TP welded point;
    - the sum of the shipper's nominations at the VTC residual delivery pooling point downstream of the TP welded point; and
    - less the sum of the shipper's nominations at virtual welded receipt points downstream of the TP welded point.

Determination of the Scheduled Quantity at the TP Welded Point

22. The scheduled quantity under the MPOC at a TP welded point shall be the sum of all shippers' nominations at the TP welded point determined in accordance with paragraphs 20 and 21.

Determination of Metered Quantities at Virtual Welded Points and Residual Pooling Points

23. The metered quantity at a virtual welded point shall be the measured flow at the virtual welded point determined in accordance with the MPOC and VTC metering standards.
24. The metered quantity at a residual delivery pooling point shall be the sum of the measured flows at all delivery points on the Vector pipeline that are not virtual welded delivery points determined in accordance with the MPOC and VTC metering standards and allocated to shippers in accordance with the Gas (Downstream Reconciliation) Rules.

Operational Imbalance at Virtual Welded Points

25. The daily operational imbalance of a virtual welded party at a virtual welded point shall be the scheduled quantity at the virtual welded point less the metered quantity.
26. A shipper shipping gas on a Vector pipeline shall have no responsibility, under the VTC, for mismatch or operational imbalance at a TP welded point other than that arising in relation to the residual pooling points.

Mismatch at Residual Pooling Points

27. A shipper's mismatch at the delivery pooling points shall be the sum of the shipper's nominations at those VTC residual delivery pooling points downstream of the TP welded point less the sum of the quantity of gas allocated to the shipper at the residual delivery pooling points.

Responsibility for Imbalance Charges at TP Welded Points

28. After deduction of any net imbalance charges attributable to Vector imbalance and any net imbalance charges attributable to operational imbalance at virtual welded points any residual imbalance charges at a TP welded point shall be recovered from shippers incurring mismatch at Vector residual pooling points with the same sign as the residual imbalance at the TP welded point.

Delivery Obligation, Title and Risk

29. MDL shall be solely responsible for delivery of gas on the Maui pipeline to or from a TP welded point and shall have no responsibility for delivery of gas on a Vector pipeline.
30. Vector shall be solely responsible for delivery of gas on Vector pipelines to or from a TP welded point and shall have no responsibility for delivery of gas on the Maui pipeline.

Rights and Obligations Related to Balancing and Peaking

31. Virtual welded parties shall have all the rights and obligations, and no other, related to operational imbalances and peaking that are available to MPOC welded parties.
32. Vector shall have no rights or obligations, under the MPOC and the VTC related to balancing and peaking, in respect of imbalances at virtual welded points (except those that are available to them through MPOC normally such as ability to make claims against incentive pool if interrupted due to actions of a VWP and vice versa).

Tolerances

33. Section 12.6 of the MPOC (daily operational imbalances) establishes a daily operational imbalance limit (tolerance) at each welded point or combined welded point.
34. The creation of virtual welded points and allocation of tolerances to those points may require subdivision of tolerances to a level that would not provide any meaningful flexibility.
35. To overcome this issue and to ensure it is possible to exploit the full extent of pipeline flexibility an alternative is that tolerances be reformed to become the limits of divergence of line pack from a fixed level at which MDL will undertake a balancing transaction to address imbalance.
36. Whilst this change is reasonably fundamental to the success of virtual welded points it is outside the scope of this proposal.

Pipeline Transmission Charges

37. There shall be no changes to transmission charges under the MPOC or VTC arising from implementation of virtual welded points. Although there are nominations between Maui welded points and virtual welded points the separate regimes for transmission chargers payable under the MPOC and the VTC will continue to apply.
38. Maui pipeline transmission charges will continue to be based on shippers' nominations at Maui receipt points and Maui delivery points.

39. Vector pipeline transmission charges will continue to be based on gas metered quantities at Vector pipeline delivery points. **[Note: This doesn't work well on the Frankley Road to Kapuni pipeline where there are multiple receipt points.]**

Other Issues

40. A careful review of other provisions of the VTC will be required to ensure that Vector's rights and obligations to manage the operation of its pipelines between a virtual welded point and a TP welded point are maintained including rights under the following sections of the VTC:
    - section 10 (interruption of transmission);
    - section 22 (force majeure); and
    - section 23 (liabilities).
41. A careful review of the MPOC will be required to ensure that MDL's rights and obligations to manage the operation of its pipelines are maintained.
42. A careful review of both the provisions of the VTC and the MPOC will be required to ensure that:
    - a shipper either delivering gas to a virtual welded point or taking gas at a virtual welded receipt point does not face double jeopardy under the provisions of the VTC and the MPOC.
    - virtual welded parties do not face claims under both the MPOC and the VTC;
    - parties are not able to make claims in relation to the same event under the MPOC and the VTC but parties are able to make claims to redress damage.