

OMV



Ian Wilson
Senior Advisor – Pipelines
Gas Industry Company
PO Box 10-646
Wellington

Thursday, December 11, 2009

Dear Ian

Thank you for the opportunity for OMV to participate in the Industry Code Development (ICD) process. OMV is pleased to support this process; accordingly enclosed in a signed Memorandum of Understanding (MOU).

OMV would like to recognise the efforts of the GIC to facilitate industry negotiation to develop the contractual changes to the pipeline operating codes, and we trust that this process will continue in 2010.

OMV would like to add the observation that in parallel with the industry code development process, there are two areas where continued GIC focus would provide considerable value:

- The first area is the workstream to develop a viable D+1 allocation algorithm. We view this as essential, as without this allocation there will continue to be uncertainty over the boundary between a User's obligation to balance and the residual balancing needs of transmission systems.
- The other area is on the development of a spot market for gas, with the future aim of extending the current intra-day market (BGX) with a day-ahead, or futures, market.

OMV believes that focus on addressing these areas will assist greatly in improving observed pipeline balancing behaviour, and to providing a fully workable balancing regime.

OMV would like to thank the GIC for its continued attention on this contentious area, as without this, the considerable progress made to date might not have been possible.

We would appreciate the opportunity to discuss these matters with you further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wayne Kirk'.

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OMV Exploration & Production

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Memorandum of Understanding
Integrated Gas Balancing Regime

MEMORANDUM OF UNDERSTANDING

DATED 11 December 2009

BETWEEN

Contact Energy Limited
Genesis Energy Limited
Greymouth Petroleum Limited
Maui Development Limited
Mighty River Power Limited
Multigas Limited
NZ Steel Limited
OMV Limited
Vector Gas Contracts Limited
Todd Energy Limited
Vector Gas Limited

each a "party" and together the "parties",

AND ACKNOWLEDGED BY Gas Industry Company ("Gas Industry Co") in its capacity as convenor and facilitator of the ICD process (being the Industry Code Development process).

BACKGROUND

- A. Gas Industry Co has completed a review of the current transmission pipeline balancing arrangements in New Zealand and has determined that on the basis of the current facts a regulatory solution is necessary to provide efficient residual balancing of pipelines. Gas Industry Co is required to take into account the possibility of non-regulatory solutions as part of the process it follows in recommending new gas governance arrangements. The submissions received prefer non-regulatory solutions.
- B. At that time, Gas Industry Co also agreed to facilitate a parallel process aimed at developing a more integrated balancing regime, to be achieved primarily through changes to the existing contractual framework, and known as the ICD process which if successful may obviate the need for, or reduce the scope of, regulation.
- C. The parties have each committed to participating in the ICD process.
- D. As part of the ICD process and in furtherance of the parties' preference that an integrated balancing regime is based on contractual agreements rather than regulation, the parties have agreed principles and a package of changes and a timetable, set out in this Memorandum of Understanding and attached Schedules, that would provide for the introduction of an integrated balancing regime through changes to the existing contractual framework.
- E. The purpose of this Memorandum of Understanding is to provide a high level of confidence that an industry solution is achievable within an established timeframe.

PURPOSE AND STATUS

1. PURPOSE OF MoU

- 1.1 The parties wish to enter into this Memorandum of Understanding to record:
- (a) the intention of the parties with respect to the process for the development of the package of changes to the existing contractual framework as described in the attached schedules;
 - (b) Gas Industry Co's acknowledgement of those intentions; and
 - (c) each party's support for the intended changes.

2. STATUS OF MoU

- 2.1 Although this Memorandum of Understanding is intended to reflect the parties' good faith intentions and support for the package of changes set out in the attached schedules, at the date of this Memorandum of Understanding, nothing in this Memorandum of Understanding is intended to create any legally binding obligation on any party.

3. INDUSTRY CODE DEVELOPMENT PROCESS

- 3.1 In December 2009, Gas Industry Co intends to recommend to the Minister of Energy whether or not to regulate unified residual balancing of gas transmission pipelines.
- 3.2 Each of the parties prefers an integrated balancing regime based on the development of the contractual framework, rather than based on regulation.
- 3.3 The parties have a vision of an integrated balancing regime extending across the whole transmission system.
- 3.4 The parties recognise that this vision will take time to achieve, and is not achievable before December 2009 when Gas Industry Co will recommend whether or not to regulate for residual balancing.
- 3.5 Accordingly, the parties have developed a package of changes, to be implemented through changes to the contractual framework, and intend that all changes impacting the flow of balancing charges between parties are to come into effect on 1 October 2010.

4. PRINCIPLES AND PROCESS FOR CONTRACTUAL CHANGES TO CODES

- 4.1 The parties agree that the package of changes that would provide for the introduction of an efficient integrated balancing regime through the contractual arrangements reflects the following principles:
- The balancing operator(s) will operate, as a Reasonable and Prudent Operator(s) (RPO) to clear pre-defined policies and operating procedures when making decisions on the need for a balancing action.
 - The balancing operator(s), as a RPO, will procure balancing services through a balancing market at least cost on an arm's length basis. It is the parties' view that the balancing gas trading platform currently in operation can be developed to meet this requirement.
 - The balancing market will be open to all eligible providers of balancing services.
 - Balancing costs will be recovered on a pay-first-dispute-later basis and, as far as possible, will be allocated to parties that cause the balancing actions.
 - Good information and balancing tools will be made available to all transmission system users to minimise the need to draw on balancing services.

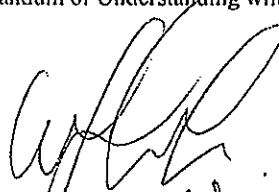
- Balancing activity will be transparent and subject to full reporting and audit processes.
- 4.2 The changes needed to the contractual framework to meet the principles set out in paragraph 4.1 above have been defined (in detail or at a general level) and are described as 'expected content' in the attached Schedules.
- 4.3 The parties each support the package of changes to the contractual framework as described in the attached Schedules.

5. GENERAL

- 5.1 Each party shall bear its own costs in preparing this Memorandum of Understanding and attached Schedules any work carried out in relation to the development of the changes to the contractual framework.
- 5.2 Unless expressly agreed to the contrary, no matters discussed in relation to the matters set out in this Memorandum of Understanding will be confidential.

Signed for

Company:



OMV NZ Ltd

By:

Wayne Kirk

Job Title:

MANAGING DIRECTOR

Date:

11/12/2009

Acknowledged by

Gas Industry Company

