



Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland, New Zealand
www.vector.co.nz
Corporate Telephone
+64-9-978 7788
Corporate Facsimile
+64-9-978 7799

Principal Adviser - Infrastructure Access Group
Gas Industry Company Limited
PO Box 10 646
Wellington 6143

04 December 2009

Dear Ian,

Memorandum of Understanding – Integrated Gas Balancing Regime

Vector Gas Contracts Limited (Vector) has appreciated the time and effort that the Gas Industry Company (GIC) has committed to the Industry Code Development (ICD) process.

Vector fully supports the package of changes contained within the Memorandum of Understanding (MoU) and its implementation by 1 October 2010. However Vector has serious concerns that this package of changes will not be implemented without participative regulations, therefore will not be signing the MoU.

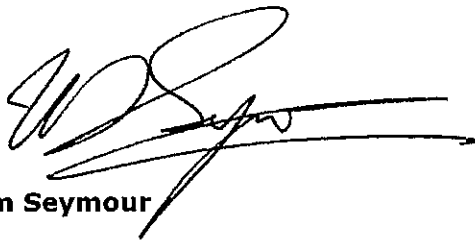
During the 10 week ICD process the industry has agreed in principle to a package of changes. These are still at a high level and even at this level of detail there is disagreement on some key principles. Vector's concern has always been that the "devil is in the detail" will cause the process to ultimately fail. The impact of this failure will be the GIC being required to then implement regulations, which will not be achieved until 2011. This will increase costs for the industry as an inefficient balancing mechanism stays in place for longer and also the process will require greater effort from both the GIC and the industry. One of the key advantages of the regulatory solution is the deadlock breaking mechanism, which will ensure that a solution is implemented but is flexible enough to incorporate future change if required.

The draft regulations published by the GIC's Statement of Proposal dated 1 October 2009, are much narrower than the package of changes detailed within the MoU. Vector recommends that the GIC implements the regulations and assists the implementation of the package of changes as a wrapper to the regulation.

Vector will participate in either the regulatory or ICD process as it is fully committed to the changes required to create an efficient, unified balancing arrangement for managing pipeline imbalance.

If you have any further questions regarding the above, please contact Anna Carrick at a.carrick@vector.co.nz or at 04 803 9044.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Jim Seymour', with a long horizontal flourish extending to the right.

Jim Seymour

Manager Gas