

vector Gas



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3 December 2009

Mr Ian Wilson
Gas Industry Company Ltd
PO Box 10 646
WELLINGTON

Dear Ian

Gas Transmission Balancing MOU

This is to let you know that Vector as the pipeline owner and operator, will not be signing the Memorandum of Understanding and provide you with our reasoning behind this decision.

Vector believes the implementation of an integrated package of measures is necessary to improve balancing performance across the system. The keys to achieving an effective balancing regime are a nominations regime across the transmission system from which users who have not supplied sufficient gas to meet their demand can be identified, a co-ordinated set of Standard Operating Procedures across the system, and effective mechanisms to ensure the costs of balancing are borne by causers. At the same time, users of the system need access to tools and information to be able to self balance to the extent it is cost effective for them to do so.

With respect to the attached Memorandum of Understanding *Integrated Gas Balancing Regime* (MOU), Vector Gas Limited:

- Agrees the document reflects the progress made by the Industry Code Development (ICD) process;
- Agrees an integrated balancing regime based on a number of the matters outlined in the Schedules of the MOU is required to improve industry balancing performance;
- Agrees that all changes impacting the flow of balancing charges between parties need to occur simultaneously and preferably to be effective on 1 October 2010;
- Notes that the ICD process has to date taken ten weeks at an opportunity cost to the industry of several hundred thousand dollars;
- Notes that points of significant difference remain within the industry on key matters; and
- Does not believe an integrated balancing regime can be achieved in a timely or cost effective manner purely through changes to the contractual framework.

Vector recommends a regulated solution is pursued to:

- Achieve an integrated balancing regime in timely and cost effective manner;
- Resolve the points of significant difference in the proposed regime; and
- Compel parties to participate in the regime.

An integrated package of measures is key to an improvement in balancing performance.


The non-binding nature of the MOU and the points of significant difference in the industry, make such an integrated package an unlikely product of any continuation of the ICD process; but, importantly, an achievable outcome under a regulated solution.

Progressing with parts of the package in isolation is not an avenue Vector believes is in its, or its customers, interests. For example, the suggested MPOC Change Request to implement back-to-back cashouts would not in its own right improve balancing performance but simply shift the recovery of the costs from party to another, in this case, from Maui shippers (albeit a predominately socialised cost via the tariff) to Vector shippers. It is Vector's view that Maui shippers contribute to the imbalance, given their nominations are not linked to demand, while Vector shippers are obliged to deliver gas to consumers with limited ability to influence the nominations on the Maui pipeline, from which the imbalance is determined. Vector has not had the opportunity to assess the Change Request itself, and we make our comments based on the general description presented during the ICD process. Vector needs to ensure it protects its customer's rights, and can invoke the relevant provisions of its Interconnection Agreement (ICA) if the Change Request does not lead to favourable outcomes.

Vector also notes that the substantial costs (including the costs of resolving the points of significant difference) associated with a protracted and/or only partially concluded ICD process should be recognised in any assessment undertaken by the Gas Industry Company.

In line with the above comments, Vector looks forward to working with the industry and Gas Industry Company to implement an integrated package of measures to improve balancing performance across the system.

Yours faithfully



Daniel McCarthy
Group General Manager Commercial
Vector Limited