



Vector Limited
101 Carlton Gore Road
Newmarket
Auckland
www.vector.co.nz
Corporate Telephone
+64-9-978 7788
Facsimile +64-9-978 7506

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Sharon Wray
Contact Energy Limited
PO Box 10742
Wellington

Roger Johnston
Genesis Power Limited
PO Box 17188
Greenlane
Auckland

Michael Ram
Energy Direct NZ Limited
PO Box 32
Wanganui

Chris Boxall
Greymouth Gas New
Zealand Limited
PO Box 1394
Queen Street
Auckland

Duncan Jared
Mighty River Power Limited
PO Box 90399
Albert Street
Auckland

Anna Carrick
Vector Gas Contracts
Limited/On Gas Limited
Private Bag 39980
Wellington

Charles Teichert
Nova Gas Limited
PO Box 10141
Wellington

Commitments by Northern Pipeline Shippers and Vector Transmission

- 1 I refer to the Commitment letter dated 29 July 2011 ("Commitment Letter"). I consider that it is now timely to provide each of you with an update in relation to progress on the commitments that Vector made to each of you.
- 2 In relation to the commitment set out in paragraph 2 of the Commitment Letter, Vector Transmission is not aware of the completion of any tender process that needs to be disclosed. If this is not the case, please advise. I understand that any disclosures of offer information pursuant to paragraph 1 (c) of the commitment letter should be sent to infodisclosures@gasindustry.co.nz.
- 3 Vector has met with Mighty River Power and Contact Energy in relation to the commitment set out in paragraph 3 of the Commitment Letter, namely:

"to negotiate, and where practicable agree on a set of reasonable commercial terms to govern trading of capacity under Supplementary Agreements and Non-Code Shipper transmission services agreements (including where relevant reasonable amendments to Supplementary Agreements and Non-Code Shipper transmission services agreements), by a target date of 1 December 2011."

The next step is for Vector to prepare an amendment to each of these contracts for consideration by Mighty River Power and Contact Energy respectively. These amendments, when agreed, may require board approval. I expect these amendments to be ready for review by those parties in the next few weeks.

- 4 In relation to the commitment set out in paragraph 4 of the Commitment Letter, we understand the GIC is currently considering the information it will request disclosure of. We understand that no request has yet been made.
- 5 In relation to the commitment set out in paragraph 5 of the Commitment Letter, namely:

“work with the GIC on a review of the Northern Pipeline capacity constraint, with the results to be made public and presented in an open forum by a target date of 1 December 2011.”

Vector will meet this commitment by preparing a “current state” paper that reviews the North Pipeline capacity and sets out Vector’s view of capacity on the Northern Pipeline. In addition in order to promote a wider understanding and evaluate the future state of capacity on the North Pipeline, Vector has established a comprehensive project to disclose and evaluate the availability of capacity on the North Pipeline. The deliverable from this project are due on or before the following dates:

What	When
Overarching Consultation Paper: Sets out purpose, high level consultation approach, steps and timeline.	30 September 2011
Current State Paper: Reviews the North Pipeline capacity.	31 October 2011
Physical Modelling Inputs Discussion Paper: Explains the modelling approach, demand assumptions, security criteria, reasonable and prudent operator.	31 October 2011
First Consultation: Public forum to answer questions.	31 October to 25 November 2011
Consultation Feedback and Publication of Modelling Outputs: Modelling base case and sensitivity scenarios, including a draft capacity determination.	Early-mid December 2011
Presentation of Capacity Determination Discussion Paper: Public forum, discussion.	Depends on feedback received.
Consultation Period	
Vector’s Capacity Determination	

Vector is committed to disclosing and consulting on its modelling approach, assumptions and inputs (including its system security criteria) as it pertains to the Northern Pipeline. Vector will use the feedback from consultation to inform its decision making. Due to the dynamic nature of the factors that determine capacity there is no one answer and Vector will decide whether, as a reasonable and prudent operator, it is appropriate for it to issue additional firm capacity and make its reasons for its decisions transparent.

One of the key objectives of this review is to provide a level of transparency and quality of information that allows shippers and their end use customers to fully understand the level and nature of the congestion so that they can factor these into their commercial decision making.

A discussion paper on this updated modelling, together with the outputs will then be published for consultation. Once this work is complete Vector will be in a position to confirm the amount of capacity that is available on the North Pipeline.

It is our expectation that the modelling inputs paper will be circulated in October. We expect that this first phase of consultation and information sharing will be completed by 1 December 2011.

The second phase of consultation and information sharing, at this stage, focuses on outputs of the model and will reveal whether Vector, as a reasonable and prudent operator, is in a position to allocate any additional capacity on the Northern Pipeline. We expect this phase to begin in November and to conclude in the New Year.

Vector has been in regular discussions with the GIC and has shared with them an outline of the project/consultation plan that Vector is following in relation to the Northern Pipeline capacity review. To this end Vector remain committed to working with the GIC and the rest of the industry, shippers and end users alike to ensure that a greater understanding of Vector's view of the extent of congestion on the Northern Pipeline.

Vector will keep you informed of project progress through road shows, individual meetings and newsletters.

- 6 In relation to the commitment set out in paragraph 6 of the Commitment Letter, unless anyone has a preference to the contrary, we propose to engage a service provider to implement a bulletin board to facilitate the trading arrangements described in the commitment set out in paragraph 1, of the Commitment Letter. Please advise if you would like to attend a meeting with Vector to assist us defining the scope of the bulletin board development.
- 7 In relation to the commitment set out in paragraph 7 of the Commitment Letter, namely participation in the GIC's long term project, we understand the GIC will issue a paper describing the programme structure and scope shortly.

8 I trust this is of assistance. Please do not hesitate to contact me if you have any queries in relation to the above.

Yours faithfully



Brenda Talacek
Transmission Commercial Manager

cc: Steve Bielby, Gas Industry Company
Gareth Wilson, Ministry of Economic Development