Draft Recommendation: VTC CR Appeal 31 July 2012

Date issued: 1 October 2012
Submissions close: 19 October 2012

GAS INDUSTRY COMPANY LIMITED

About Gas Industry Co.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

Authorship

This paper was prepared by the Market Operations Group

Submissions close: 19 October 2012

Submit to: www.gasindustry.co.nz

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181466.5 1 October 2012

Executive summary

Vector Limited (Vector) proposed a change to the Vector Transmission Code (VTC) on 5 July 2012 that did not receive the 75 percent support from Shippers necessary for it to be adopted. Vector appealed to Gas Industry Co, in its VTC appeals body role, to have the change request allowed (pursuant to section 25.6 of the VTC).

The proposed change aims to alter VTC arrangements in respect of prudential and dispute changes. The change related to prudential security is to remove the option for Shippers to provide a cash bond. The change related to disputed invoices will require shippers who in the event of disputing an invoice from Vector will be required to pay half of the disputed portion of such an invoice into an interest bearing trust account.

Four submissions were received on the appeal. Subsequent to the receipt of submissions, Gas Industry requested more information from Vector on one of the proposed changes: the requirement for Shippers to pay at least half of the disputed portion of an invoice. The information received is provided as appendices to this document.

Draft Recommendation

Having analysed the appeal, the submissions received on it, and the additional information provided by Vector, Gas Industry Co's draft recommendation is to support the change request.

Next steps

Gas Industry Co invites submissions on this draft recommendation.

Submissions are due by **5pm, 19 October 2012**. Please note that submissions received after this date may not be considered.

Contents

1 October 2012

1 Introduction

1.1 Purpose

This paper presents an analysis of, and draft recommendation on, the Vector Transmission Code (VTC) Change Request Appeal submitted by Vector Limited (Vector) on 31 July 2012 (the appeal).

The appeal and other relevant papers can be found at http://gasindustry.co.nz/work-programme/vtc-change-request-appeal-31-july-2012-prudentials-and-disputes.

1.2 Background

Gas Industry Co's role under the VTC

Under the VTC, any party can request a variation or modification to, or waiver from, any provision of the VTC. Section 25 of the VTC sets out a process for considering such change requests including compulsory consultation with all shippers on Vector's transmission system. Under section 25.5(c)(i) of the VTC, Vector and 75 percent of all shippers who respond must consent to a change request for the change to be made to the VTC. Once that process is complete, certain parties may appeal the outcome whether or not the change request was successful. For example, a party who voted against a change request that was successful may appeal that outcome and vice versa.

Gas Industry Co is tasked with independently reviewing and making a recommendation on change request appeals. Following consultation, Gas Industry Co must make a final recommendation 'supporting or not supporting the Change Request or finding that Vector has or has not validly withheld consent'[1].

In consultation with its shippers, Vector developed a process for considering change request appeals under the VTC. Gas Industry Co and Vector have incorporated that process into a Memorandum of Understanding (MoU). The MoU sets out in detail the process that Gas Industry Co follows when considering appeals. A copy of that MoU is available on Gas Industry Co's website: http://www.gasindustry.co.nz/work-programme/vtc-change-request-appeal-20-february-2009?tab=1183

[1] VTC Section 25.7.

When making its recommendation on an appeal, the MoU requires Gas Industry Co to have regard to the objectives specified in section 43ZN of the Gas Act 1992 (the Gas Act) and the objectives specified in the Government Policy Statement on Gas Governance (GPS). The combined principal objectives for Gas Industry Co are to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

Gas Industry Co's final recommendation is binding on the parties to the VTC, except in limited circumstances in whichVector may withhold its consent, for example, the change would result in Vector incurring unrecoverable capital expenditure or operating expenses. These circumstances are listed in section 25.5(b) of the VTC..

Current appeal

On 31 July 2012, Gas Industry Co received an appeal from Vector. The appeal relates to a change request initiated by Vector and notified to shippers by Vector on 5 July 2012. The 75 percent threshold of shippers consenting to a change request was not met and Vector appealed to Gas Industry Co to seek its support to have the change allowed.

The content of the appeal closely matches parts of the 14 December 2011 Change Request (December 2011 change request) which was appealed to Gas Industry Co. The December change request was not supported by Gas Industry Co because of concerns we had regarding the proposed changes to peaking and shipper insolvency.[2] During our analysis of that change request, we found that:

- removing shippers' ability to post cash bonds would not be more onerous on shippers; and
- the requirement to pay half of that portion of an invoice which was disputed by a shipper would likely contribute to more effective resolution of disputed invoices.

Thus, these two proposed changes did not contribute to Gas Industry Co not supporting the 14 December 2011 change request.

Around the same time that Gas Industry Co received from Vector the December 2011 change request, Mighty River Power submitted a change request to Vector which contained similar aspects to Vector's appeal. Shortly after Gas Industry Co made its final recommendation to not support the December 2011 change request, we understand that Vector consented to the changes proposed in the MRP Change Request. The issues in the present appeal are some of the residual matters from the December 2011 change request which were not included in the MRP Change Request.

[2] Details of the 14 December 2011 Change Request can be found here: http://gasindustry.co.nz/work-programme/vtc-change-request-appeal-14-december-2011-invoicing?tab=2319.

Despite this overlap, Gas Industry Co practice is to assess each VTC Change Request Appeal independently. This is discussed further in section 4 of this paper in response to issues raised by submitters.

1.3 Submissions received

Submissions were called for by Gas Industry Co. Four submissions were received from:

- Contact Energy (Contact);
- Genesis Power Limited (Genesis Energy);
- Greymouth Gas Limited (Greymouth); and
- Mighty River Power Limited (MRP).

1.4 Additional information

Subsequent to the receipt of submissions, Gas Industry Co requested that Vector provide it with further information on one of the proposed changes: the requirement for Shippers to pay at least half of the disputed portion of a disputed invoice. We received two separate pieces of information, both of which are provided as appendices to this document. The first piece of evidence is Vector's response to some questions posed by Gas Industry Co. The second piece of evidence is a spreadsheet summary of the total number of disputes, the disputed amounts, the length of time it took to resolve the disputes and which party the dispute was found in favour of in the case of balancing invoice disputes.

Section 2 of this paper presents the criteria that Gas Industry Co must have in mind when carrying out its VTC change request role. Section 3 presents our evaluation of the appeal including the submissions received. Section 4 addresses residual issues raised in submissions.

2 Evaluation criteria

Gas Industry Co will have regard to the objectives of section 43ZN of the Gas Act and the GPS when making its recommendation on a VTC appeal.

2.1 Objectives in section 43ZN of the Gas Act

The principal objective of Gas Industry Co in developing/recommending any regulation is to:

…ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner.

The other objectives are:

- the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements; and
- barriers to competition in the gas industry are minimised;
- incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced;
- delivered gas costs and prices are subject to sustained downward pressure;
- risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties; and
- consistency with the Government's gas safety regime is maintained.

2.2 GPS objectives and outcomes

Objectives

The GPS requires Gas Industry Co to have regard to two further principal objectives—fairness and environmental sustainability—in all of its recommendations.

Gas Industry Co must also have regard to the other objectives set out in the GPS as follows:

- energy and other resources used to deliver gas to end users are used efficiently;

- competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users;
- the full costs of producing and transporting gas are signalled to end users;
- the quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences; and
- the gas sector contributes to achieving the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister of Energy and Resources may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency.

Outcomes

The GPS sets out specific outcomes Gas Industry Co is expected to pursue through its work programme. The outcomes most relevant to the appeal are:

- an efficient market structure for the provision of gas metering, pipeline, and energy services;
- a clear understanding of the respective roles of gas metering, pipeline, and gas retail participants;
- gas governance arrangements are supported by appropriate compliance and dispute resolution processes;
- gas industry participants and new entrants are able to access ….transmission pipelines…. on reasonable terms and conditions; and
- consistent standards and protocols apply to the operations relating to access to all distribution pipelines.

3 Evaluation of the proposal

3.1 Prudential requirements

Current arrangements and proposed change

Section 14 of the VTC relates to Prudential Requirements. Present arrangements are that Shippers must meet the VTC's prudential requirements by holding an acceptable credit rating which is set at a long-term rating of BBB- (as per Standard & Poors Ratings Group and equivalents thereof). If a Shipper does not hold an acceptable credit rating then it must either:

- pay two separate cash bonds, one to Vector and one to the BPP Trustee; or
- arrange for a third party to provide one or a combination of:
  - an unconditional payment guarantee or letter of credit in favour of Vector or the BPP Trustee;
  - an unconditional third party payment guarantee in favour of Vector or the BPP Trustee; and
  - a security bond in favour of Vector or the BPP Trustee.

The proposed change is to remove the ability to pay two separate cash bonds. Vector's rationale for the change is that the payment of cash bonds may be a voidable transaction under the Companies Act.

Vector also proposes several related deletions from section 14.12[3] of the VTC as follows (struck-through text to be deleted):

> 14.12 If a TSA is terminated, Vector will release any associated security ~~and repay any bond (including any interest accrued under section 14.8, minus any applicable bank fees)~~ to the extent that the relevant Shipper has paid all outstanding amounts and amounts payable under all of its TSAs except to the extent:
>
> (a) of any claim made by Vector under such security ~~in accordance with Agreement~~; and/or

[3] Assuming other changes to the VTC are accepted, section 14.12 becomes section 14.11.

(b) the relevant Shipper has not paid all outstanding amounts and all amounts payable or which may reasonably be considered by Vector to become payable in the following 30 months under that TSA.

Submissions

Neither Contact nor Genesis nor MRP objected to the proposed change to prudential requirements.

Greymouth does not disagree with the proposed change to remove the ability to pay two separate cash bonds but nonetheless argues that the changes to section 14.12 should not be made because they are not commercially sensible for the following reasons:

- Vector's ability to claim under section 14.12(a) must not be unfettered—any claims should be consistent with the security;
- Vector's ability to claim under section 14.12(a) should be limited to outstanding amounts and all amounts payable or which may reasonably be considered by Vector to become payable in the following 30 months under that TSA; and
- the release of securities should not be delayed by unreasonable claims of Vector.

Evaluation

Regarding the proposed changes, we consider that the objectives most relevant to a consideration of the proposed change is the Gas Act provisions that 'barriers to competition in the gas industry are minimised' and 'risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties', and the GPS objective that 'competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end-users.'

Gas Industry Co does not believe the proposal to remove the ability to post cash bonds will alter the status quo in any significant way. While removing one of the options available to Shippers without an acceptable credit rating potentially increases a barrier to essential infrastructure—for instance, to a potential new entrant—the use of prudential requirements to manage risks, is common commercial practice. Also, the party would still have the alternative options available, such as making an arrangement with a third party to provide Vector with payment guarantee.

Regarding the proposed deletions from section 14.12 of the VTC, both deletions appear to be simplifications that would have no material impact on any procedure within the VTC. We do not consider that Greymouth's first objection (that the proposed deletion in section 14.12(a) will allow Vector to make unfettered claims) is valid since Vector's ability to claim under section 14.12(a) is limited to any security pertaining to a terminated TSA. The two other points raised by Greymouth propose variations to the change request, and Gas Industry Co can only consider the change request as presented, not as submitters would wish it to be. We note that Greymouth is able to pursue a change to the VTC itself if it wishes to change these aspects of the VTC.

We support the proposed changes to section 14 of the VTC as they do not frustrate the ability of participants and new entrants to access the transmission system on reasonable terms and conditions.

Q1:	*Do you agree with Gas Industry Co's evaluation of this proposed change?*

3.2 Disputes

Current arrangements and proposed change

Section 16 of the VTC is about Invoicing and Payment arrangements. Section 16.17 of the VTC relates to arrangements when a Shipper disputes any amount invoiced to it. The present arrangement is that a Shipper must notify Vector in writing within 10 business days of receiving the invoice the amount in dispute and must provide full reasoning for that dispute. Any part of an invoice not disputed must be paid. If the dispute has not been resolved by negotiation within 15 business days of Vector receiving notification of the dispute then it will be referred to an independent expert for binding resolution in accordance with section 17 of the VTC (and not Schedule Two). Vector cannot suspend transmission services by reason only of a Shipper withholding the disputed amount.

The proposed change is to:

- clarify that any Party, rather than any Shipper, may dispute an invoice issued under section 16 of the VTC; and
- require a Shipper where they are the disputing Party to pay not less than half of the disputed portion of the invoice into a separate, interest bearing, trust account until resolution of the Dispute or issue an invoice for half of the portion of the BPP Schedule which is in dispute.

Vector's rationale in proposing the change is to encourage both the prompt payment of invoices and better dispute practices.

Submissions

Contact strongly disagrees with the proposed change to require a Shipper to pay at least half of any disputed invoice as it believes this would leave parties in a semi-settled position hence creating a disincentive to resolving the issue quickly. Contact says that Vector has not provided evidence to suggest the 'robust and codified [dispute] process' has previously been held up by Shippers where they have not had to pay half of the disputed portion an invoice.

Genesis Energy does not support the changes to section 16, particularly the proposed amendments to enable Vector to dispute BPP invoices and the requirement for Shippers to pay at least half of the disputed portion of an invoice. It states that the case for each change has not been made by Vector and that neither change will encourage better dispute practices.

Regarding the change to enable Vector to dispute BPP invoices, Genesis Energy says it cannot conceive of a reason why Vector, as the Trustee of the BPP Account and the party who determines the invoice amount, should wish to dispute a BPP invoice. It also finds that the amendment has been drafted to ensure when Vector disputes an invoice it does not have to pay any part of that invoice—this is inconsistent with the rules that apply for Shippers.

On the change to require shippers to partially pay disputed invoice amounts into a separate interest bearing trust account, Genesis Energy believes the current procedures work well so sees little reason to change them. At present Vector does not incur a loss as a result of a shipper not paying the disputed amount because interest is already payable on dispute amounts under section 16.18 of the VTC. By requiring Shippers to pay at least half of the disputed portion of an invoice, Genesis Energy suggests:

- there is a risk this weakens the incentive on Vector to negotiate towards a resolution and gives it an unfair advantage in negotiating a resolution;
- that it is unclear based on the proposed changes what would happen to the payment if the dispute is not resolved; and
- the proposed change creates an unclear position as to the treatment of interest payable on a disputed invoice. If no less than half of the disputed portion of an invoice is payable into an interest bearing trust account then it is not clear if section 16.18 of the VTC (Interest on a Disputed Amount) requires interest to be paid on top of the interest paid for at least half of a disputed amount.

Greymouth does not support either of the changes proposed to section 16 of the VTC. It states the requirement for Shippers to pay the undisputed portion of an invoice should also apply to Vector if it is able to raise a dispute. On the proposed change for a disputing Shipper to pay not less than half of the disputed portion of an invoice, Greymouth believes this will neither benefit the gas industry nor reduce dispute resolution costs.

MRP states that the case for change has not been made by Vector and that dispute resolution is directly affected by the complexity of a particular dispute rather than whether a Shipper is required to pay part of a disputed invoice up front. MRP is also of the belief that the proposed changes are incomplete because they do not specify how the outcome of a dispute process would be implemented including the treatment of interest.

Additional information

Several submitters stated that Vector had not made a case for the changes and therefore could not see how the change would be an improvement on the status quo. In response to those concerns, Gas Industry Co requested that Vector provide it with some additional information in support of these particular changes. The information we received is attached as two appendices to this document. The information contains further information on previous disputes, for example: the length of time each dispute took to settle and the disputed amounts.

Q2: The additional information provided by Vector shows that there are a number of disputes that took a long time to resolve. Do you have any comments on the time it takes to resolve disputed invoices? What factors are you aware of that influence the time it takes to resolve disputed invoices?

Evaluation

We consider the objectives most relevant to the proposed changes to section 16 of the VTC to be the Gas Act provision that 'risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties' and one of the 'other outcomes' of the GPS which is that '[g]as governance arrangements are supported by appropriate compliance and dispute resolution processes.' Our evaluation is split into the two substantive changes proposed.

Permitting any Party, rather than Shippers, to raise a dispute under section 16.17 of the VTC

The effect of the change is presumably to allow Vector to dispute invoices it may receive from Shippers under section 16.3. That section outlines that Shippers will provide an invoice to Vector for the aggregate amount stated in the BPP Schedule to which that Shipper is entitled under its TSA pursuant to section 8 of the VTC (Balancing and Peaking). BPP Schedules are provided by Vector to Shippers by the 14th day of each month.

Based on the submissions received we see no reason to object to the proposal to enable any Party, rather than only Shippers, to raise a dispute under section 16.17 of the VTC. Some submitters raised a concern that the proposal seems asymmetric because Vector would not have to pay at least half of the disputed portion of an invoice. To us, this does not seem substantial enough to object to this change because a party to a dispute may refer that dispute to an independent expert for binding resolution if the dispute has not been resolved in a timely manner. Further, disputes of this nature are likely to be mechanical by nature if, for instance, Vector was to provide an incorrect BPP Schedule to Shippers.[4]

We support the proposed change because it is appropriate for dispute resolution processes to permit either party to a transaction to dispute invoiced amounts.

[4] See Vector's response to Gas Industry Co's second question at Appendix A.

Q3: Do you agree that the proposed change does not need to be symmetrical because: (a) in any case, a dispute may be settled by an independent expert and (b) disputes raised by Vector are likely to be mechanical in nature?

<u>Require Shippers to pay not less than half of the disputed portion of an invoice to Vector</u>

Vector's rationale in seeking this change is to create appropriate incentives to resolve disputes quickly and therefore create a more effective dispute resolution process.

Generally, we expect that Vector and its Shippers would negotiate disputes within reasonable time periods. However, Vector indicates that this is not always the case. According to the information provided by Vector, there have been instances of Shippers unnecessarily dragging out the dispute process, often over a period of several years. In such cases Vector incurs high transaction costs, irrespective of the outcome in the form of administrative costs, and these costs no doubt eventually get recovered from other Shippers (which is clearly inefficient). Also, these costs can be out of proportion to the amount in dispute, which in some instances have been less than $1000. Vector states that:

> 'We have found that some Shippers refuse to pay or delay payment of balancing costs by raising technical arguments, and then refuse to engage in the dispute resolution process and appear to delay resolution.'

In our view, such practise would represent unacceptable behaviour in the negotiation of disputed invoices.

Vector believes that because Shippers do not have to pay a portion of any disputed amount, they have an incentive to obfuscate in the hope that Vector decides to write-off the invoice (because the transaction costs it incurs in pursuing the invoice become disproportionately high relative to the disputed amount). Having considered the evidence provided by Vector at Appendix B, it does appear as though there is considerable scope for disputed invoices to be drawn out over a long period of time. For example, some disputes took longer than three years to reach settlement. The fact that balancing disputes are typically found in favour of Vector suggests that Shippers are likely to be the party holding up a dispute process.

We agree with Vector that paying a portion of a disputed amount should reduce the incentive to behave in this way.

We also believe that Shippers who have no interest in frustrating the dispute process in the hope of having the disputed amount written off, should be indifferent to the proposed change. A disputed invoice will either be found to be in favour of the Shipper or in favour of Vector. If the outcome is a finding in favour of the Shipper, any partial-payment would be returned to that Shipper, including the interest earned on such payments.[5]

In summary, we believe that requiring part payment of the disputed portion of an invoice is likely to decrease transaction costs by encouraging timelier dispute settlements.

At a more general level, it is not unheard of for contractual arrangements or dispute processes to require part or full payment of a disputed amount.

We support the proposed change because we believe it will reduce the incentive on retailers to frustrate the dispute process in the hope that the disputed amount will be written off. We believe that there is evidence of such behaviour, and we believe that this behaviour is putting an unfair and inefficient cost burden on other shippers.

Q4:	*Do you agree with Gas Industry Co's evaluation of this proposed change? Do you have any evidence to suggest that Vector's claims are incorrect?*

3.3 Changing the OATIS URL

Current arrangements and proposed change

Section 1.1 of the VTC is a list of defined terms used throughout the VTC itself. The current definition of 'OATIS' includes a reference to the URL http://www.oatis.co.nz. The proposed change is to change the URL to https://www.oatis.co.nz.

Evaluation

Gas Industry Co supports the clarification. The change ensures the reference is accurate as it is only possible to connect to the secure-site version of OATIS.

Q5:	*Do you agree with Gas Industry Co's evaluation of this proposed change?*

[5] See Vector's response to question #3 of *Additional Questions for Vector* at Appendix A.

4 Additional issues raised in submissions

4.1 Prior involvement

In its submission, Greymouth suggests that because of Gas Industry Co's role in assessing the December 2011 change request then Gas Industry Co must have had 'prior involvement' in the appeal which constitutes a breach of section 25.7(a) of the VTC. Gas Industry Co does not consider it has had 'prior involvement' in the appeal. Each appeal received by Gas Industry Co must be individually assessed and we had no involvement in the development of either change request. The VTC and MOU are silent in regard to Gas Industry Co considering an appeal relating to matters that we have considered (either in full or in part) in a previous appeal.

4.2 Process

Some submitters suggested that change requests should be issue specific—i.e. they should contain only one proposed change per proposal. While Gas Industry Co agrees with this sentiment and has suggested this in the past we note that this is an issue related to the VTC and it is up to Vector and its Shippers to come to such an understanding. While bundled change requests are 'riskier' in the sense that it will take only one of the proposed changes to not be supported for a whole appeal not to be supported, Gas Industry Co's role is to evaluate each appeal on its merits. In the absence of a change to the VTC requiring issue-specific change requests, changing the Vector-GIC MOU to require that only issue-specific appeals be considered by Gas Industry Co will not be effective. Such a change to the MOU would potentially limit Gas Industry Co's appeals role under the VTC as Shippers and Vector would still be able to bundle change requests under the VTC but Gas Industry Co could not assess these according to the MOU.

In the event of Gas Industry Co receiving two appeals relating to similar content, we would process the appeals sequentially by the date they were received. Parties to the VTC may also wish to consider whether they can submit change requests with conditional drafting if an appeal with related content was being processed by Gas Industry Co i.e. a change request with two sets of drafting (one that assumes the VTC change request will be approved by Gas Industry Co and another with the existing VTC wording).

5 Draft Recommendation

Our Draft Recommendation is to support this change request.

6 Next steps

Gas Industry Co invites submissions on this Draft Recommendation.

Submissions are due by 5pm, 19 October 2012. Please note that submissions received after this date may not be considered.

Submissions can be made by logging on to the website www.gasindustry.co.nz, navigating to the VTC Change Request Appeal 31 July 2012 (Prudentials and Disputes) page[6] and uploading your submission in the 'Draft Recommendation' section. All submissions will be published so please discuss with Gas Industry Co before making your submission if it contains any confidential information.

[6] Via Ongoing Operations/Infrastructure Access

Appendix A. Vector's response to request for further information

Item A. Gas Industry Co's email

From: John Bright [mailto:John.Bright@gasindustry.co.nz]
Sent: Thursday, 30 August 2012 2:40 p.m.
To: Katherine Shufflebotham
Subject: Questions on the 31 July VTC Change Request

Hi Katherine,

We are writing up our Draft Recommendation on the 31 July 2012 Change Request and had a few questions we'd like to ask based on some issues raised in submissions. Please respond to these questions or let me know if you'd like to meet to discuss them. Our questions are all based on the proposal to require Shippers to pay at least half of the disputed portion of an invoice. Please identify any part of your response that is confidential as Gas Industry Co intends to publish your response. Gas Industry Co will not disclose any information identified as confidential except in accordance with clause 5.2 of the Memorandum of Understanding between Gas Industry Co and Vector.

1. Is there an evidential basis for the proposed change from the current dispute process? (i.e. are there previously unseen risks or a high frequency of disputed invoices that have necessitated the change?)
2. What is Vector's rationale for requiring Shippers to pay not less than half of the disputed portion of an invoice but not requiring the same of Vector if it is the Party to have issued a Dispute Notice?
3. What will happen to the monies paid, including the interest earned on such monies, into a separate interest-bearing trust account by a Shipper where a Shipper issues a Dispute Notice and the relevant Dispute is found in favour of the disputing Shipper? Assuming the change request is approved, will this be obvious in the updated VTC or will it be open to interpretation?

Kind Regards,

John Bright
Adviser
Gas Industry Company Limited

Level 8, The Todd Building
95 Customhouse Quay
PO Box 10 646, Wellington 6143

Item B. Vector's response to Gas Industry Co's email

Appendix B. Details of disputes

The information below was provided by Vector at Gas Industry Co's request.

Balancing Disputes

Transmission Month	Disputed Amount $ (excl GST)	Days to resolve	Resolved in favour of
Dec-08	$28,618.81	1292	Vector
Feb-09	$5,708.52	1231	Vector
Feb-09	$84,820.22	524	Vector
Feb-09	$8,017.67	546	Vector
Feb-09	$340.15	84	Vector
Mar-09	$2,613.03	1205	Vector
Mar-09	$1,956.70	58	Vector
May-09	$102,921.26	1147	90% Vector/10% Shipper
May-09	$104,398.34	35	Vector
Jun-09	$53,598.01	1120	Vector
Dec-09	$2,688.71	223	Vector
Feb-10	$37,355.53	238	Vector
Jun-10	$11,961.80	64	Vector
Aug-10	$11,510.70	117	Shipper but full amount recovered from remaining Shippers
Aug-11	$9,277.26	35	Shipper but full amount recovered from remaining Shippers
Average days to resolve		528	
Average months to resolve		18	
Average disputed amount	$31,052.45		
Total disputed amount	$465,786.71		

Transmission Disputes

Transmission Month	Disputed Amount $ (excl GST)	Days to resolve
Jun-08	$69,621.52	774
Jul-08	$39,623.36	741
Sep-08	$8,245.66	680
Oct-08	$40,574.95	215
Nov-08	$13,284.68	191
Dec-08	$5,486.53	156
Jan-09	$4,901.23	121
Feb-09	$746.65	93
Mar-09	$10,380.00	505
Mar-09	$6,186.65	505
Mar-09	$787.40	505
Mar-09	$44.60	58
Apr-09	$1,627.60	7
May-09	$13,078.26	71
May-09	$132,746.68	381
May-09	$97,970.00	550
Jun-09	$112,824.55	518
Jul-09	$23,347.51	490
Oct-09	$199,740.15	253
Oct-09	$726.96	291
Nov-09	$53,654.26	253
Nov-09	$22,114.14	253
Nov-09	$703.50	269
Dec-09	$7,133.60	217
Dec-09	$160,962.80	217
Dec-09	$49,799.94	167

Transmission Month	Disputed Amount $ (excl GST)	Days to resolve
Jan-10	$554,427.41	191
Jan-10	$21,400.79	191
Feb-10	$500,773.14	162
Mar-10	$125,217.29	129
Jun-10	$18,587.44	41
Jun-10	$32,124.80	49
Jul-10	$71,539.02	9
Jul-10	$13,468.60	24
Average days to resolve		273
Average months to resolve		9
Average disputed amount	$70,995.64	
Total disputed amount	$2,413,851.68	