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4 September 2012

John Bright
Gas Industry Company Limited
PO Box 10 646
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Dear John

31 JULY 2012 VECTOR TRANSMISSION CODE CHANGE REQUEST APPEAL

1. We refer to your email to Katherine Shufflebotham on 30 August 2012 (the *email*) and Vector's 31 July 2012 Vector Transmission Code Change Request Appeal (the *appeal*).
2. In the email you requested additional information from Vector to assist with your analysis of the appeal. We have provided responses to your questions below.
3. No part of this submission is confidential and Vector is happy for it to be made publicly available.

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?)

4. Vector is unable to comment on specific disputes due to the confidential nature of this information.
5. Dispute resolution has been problematic for Vector for some time, particularly since the introduction of balancing costs. 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.
6. Ways to address and mitigate these risks have been subject to discussion with industry for at least 2 years. For example at a Shipper meeting on 1 September 2010, Vector indicated to Shippers that it was planning a VTC Change Request to make "[a]mendments to [the] Dispute Resolution process to improve the efficiency of the process for Shippers and Vector¹".
7. As you know, Vector lodged a Change Request on 16 November 2011 that included this proposed dispute resolution mechanism. While the Change Request as a whole was not consented to by Shippers or the GIC (during the appeal process), we note that the GIC appeared to support the current amendment during that process when it made the

¹ Presentation given by Vector at meeting of Vector Shippers on 1 September 2010

following comment on the current amendment in its draft recommendation dated 4 May 2012 (page 26):

“We consider that this does create appropriate incentives (to quickly resolve disputes), and does not seem needlessly complex.”

8. Vector believes that the proposed change will improve the efficiency of the dispute resolution process by discouraging the behaviours outlined above.

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?

9. For Vector to have issued a Dispute Notice it would have to be disputing an invoice from a Shipper under the Shipper’s transmission services agreement. The only invoices Shipper issue to Vector are for balancing costs, and the amounts of these invoices are based on information provided by Vector under section 16.3. Therefore it is likely that any dispute would be in relation to a manifest error on an invoice, rather than a substantive matter and non-contentious. The mechanical nature of this process suggests that it would not be efficient to require Vector to pay half the disputed portion of an invoice.

10. Contact also considers it would be inefficient to require Vector to pay half of a disputed amount. In its submission to the GIC, Contact submitted that the process of part paying disputed amounts would “cause shippers administrative burden as they will also be required to set up interest bearing trust accounts to handle payments made by Vector”². (We note that Contact appears to have misread clause 16.17 as requiring Vector to pay half of any amount it disputes).

11. Therefore Vector considers requiring it to pay half of a disputed amount would not lead to a more efficient dispute resolution process for Shippers or Vector.

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?

12. Vector considers that the treatment of these funds in each case would be addressed by the relevant parties as part of the resolution or determination of any dispute. In

² Contact Energy Limited 21 August 2012 submission to GIC on Vector Transmission Code (VTC): Appeal to allow Prudential and Disputes Change Request

addition, section 16.18 provides that where a party has to pay money to another party as a result of resolution or determination of a dispute, that party must also pay interest on the amount. We would expect any interest earned on funds held in trust (after trust account fees) to be applied towards interest owing on the amounts ultimately paid to the recipient(s) of those funds.

Yours sincerely

A handwritten signature in black ink that reads "K-Shufflebotham". The signature is written in a cursive, flowing style.

Katherine Shufflebotham
Commercial Manager – Networks