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John Bright
Advisor
Gas Industry Company
PO Box 10-646
Wellington

Dear John

Further information for VTC Change Request Appeal

1. Thank you for your email on 21 December 2011 regarding Vector's appealed Invoicing VTC Change Request ("Change Request"). In that email you requested further information from Vector to assist with considering the Change Request. That information is provided below. No part of the information is confidential and Vector is happy for it to be publicly released.

Change Request Process

2. MRP has lodged a VTC change request which cherry picks changes from Vector's appealed Change Request which are favourable to them while excluding other changes which Vector considers represent a fair allocation of risk but are not favoured by Shippers. The MRP Change Request also contains some amendments to the drafting of a number of clauses, in particular 8.21, contained in both Change Requests.

3. Vector notes that under section 25.7 of the VTC "any recommendation given to it [by the GIC either consenting or not consenting to a Change Request] shall be final and binding". If the MRP Change Request is consented to in accordance with the VTC prior to the outcome of this appeal, it appears that the Vector Change Request (if consented to by the GIC) would supersede the MRP Change Request.

4. Vector supports the content of the MRP Change Request however we are concerned that it has created uncertainty within the Change Request process.

Specific Further Information
Peaking Charges

GIC Question 1

5. In its role as a Welded Party under the MPOC, Vector has been invoiced for 28 different peaking events totalling close to half a million dollars since January 2009.

Peaking events are generally more common during the winter but can and do occur year round.

6. While the balancing and peaking regime remains the same, Vector has no reason to believe that Shippers or MDL's actions which cause Vector to incur peaking costs will change.

7. The GIC is currently considering the MPOC Change Request of 13 October 2011. We noted in our submission to the GIC on that Change Request that "it increases Vector's exposure to peaking costs. Based on 2010 and 2011 data, peaking costs could increase seven fold based on the existing level."

GIC Question 2

8. Peaking at a Welded Point can only occur if the average 3 hourly flow through the relevant Welded Point exceeds the Peaking Limit. The Peaking Limit is calculated with reference to the Hourly Scheduled Quantity at the relevant Welded Point.

9. For example, at the combined Welded Points (Rotowaro, Pokuru and Pirongia), Vector can only incur a peaking cost when:

The average metered quantity at the combined points over a 3 hour period
is greater than
the greater of (125% of the Hourly Scheduled Quantity at the combined points *and* 10,000GJ)

10. When Vector attempts to determine whether one or more specific Shippers have caused or contributed to Vector incurring a peaking cost, Vector considers the difference between Shippers average 3 hourly Delivery Quantities and hourly Receipt Quantities at the relevant Welded Point.

11. For example at the combined Welded Points (Rotowaro, Pokuru and Pirongia), Vector considers whether:

A Shippers average Delivery Quantity over a 3 hour period at the combined points
is greater than
125% of that Shippers hourly Receipt Quantity at the combined points

12. In practice:
    a. Vector is unable to determine Shippers' hourly Delivery Quantities at a Welded Point because the Allocation Agent, under the Downstream Reconciliation Rules, does not determine allocated quantities on an hourly basis; and

b. where Delivery Quantities are determined on an hourly basis via TOU metering, Vector is unable to determine a Shippers corresponding hourly Receipt Quantity at the relevant Welded Point. Shippers generally make nominations to a Welded Point to cover all of their expected demand downstream of the Welded Point. Nominations are not typically linked to a single end user or site.

13. Therefore due to inherent data limitations Vector is unable to identify which Shipper(s) have caused or contributed to Vector incurring a peaking cost.

14. Vector allocates peaking costs to Shippers under the current VTC section 8.13 (b) (iii). The proposed change seeks to reflect Vector's current practice.

Allocation of BPP Amounts on Insolvency Events

GIC Question 3

15. Under the MPOC, Vector incurs balancing costs in its role as a Welded Party. These balancing costs are on account of Shippers'[1] use of the transmission system. Therefore Shippers collectively are responsible for the balancing costs. Vector recovers these balancing costs on behalf of MDL, and being a regulated business it is limited it is ability, unlike competitive businesses, to simply increase its prices to recover any unrecovered balancing costs. Although Vector has prudential arrangements in place with all of its Shippers and actively monitors these on a regular basis, these are not effective in all situations. Other options must be utilised to ensure that balancing costs are recovered on behalf of MDL.

16. Vector does not have insurance to cover this risk. Due to the pass through nature of the balancing obligations, Vector would be unable to recover the cost of this insurance.

GIC Question 4

17. The Commerce Commission published its "Commerce Act (Gas Transmission Services Input Methodologies) Determination 2010" in December 2010.

18. Vector considers that the Input Methodology does not have any impact on the proposed section 8.36.

[1] And Vector to the extent we contribute to the need for balancing action due to compressor fuel use and UFG

Prudential Requirements

GIC Question 5

19. This change is proposed to clarify the intent of the VTC by explicitly stating that any cash bond or security bond amount provided by a Shipper is GST inclusive. It does not represent any increase in Vector's prudential requirements.

20. Section 16.6 of the VTC states "All amounts payable under a TSA are stated before the calculation of GST, which shall be due and payable at the same time as the payment to which it relates is due (*GST Amount*)." Each prudential amount requested from a Shipper is GST inclusive and we understand that Vector's reliance on 16.6 has caused confusion for some Shippers.

GIC Question 6

21. Vector has removed the option for Shippers to provide a cash bond to satisfy its prudential requirements under the VTC. This option has not been utilised by Shippers, is administratively heavy and may be subject to claw back under the Companies Act. As a consequence of this, under the VTC Vector will not hold any interest accruing cash bonds on behalf of its Shippers.

GIC Question 7

22. Business continuity insurance generally covers the loss of income as a result of a disaster while necessary repairs are made to gas production stations or pipelines (for example). Business continuity insurance would not cover the risk of Shippers defaulting on their transmission or BPP payment obligations.

23. Vector considers that requiring prudential amounts from its Shippers is a commercially sound approach to managing credit risk. Incurring cost to insure against the potential loss of revenue from a party defaulting on its VTC payment obligations would be a less commercially sound approach.

Disputed Invoices

GIC Question 8

24. Vector considers that the changes to the disputed invoices process will encourage prompt payment of invoices and better dispute practices by:

    a. Encouraging Shippers to actively engage in the dispute resolution process; and

b. Encouraging only genuine issues be disputed.

25. If you have any questions, or require further information, please contact me on 04 803 9043 or Katherine.shufflebotham@vector.co.nz.

Kind regards

K-Shufflebotham

Katherine Shufflebotham
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