

## Curtis Gregorash

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**From:** Alex LOVE [Alex.LOVE@contactenergy.co.nz]  
**Sent:** Tuesday, 10 February 2009 5:59 p.m.  
**To:** Jo Murray; Anna Carrick; Blair Boswell; Charles Teichert; davidemerson@multigasnz.com; Duncan.Jared@mightyriver.co.nz; Jim Raybould - MRP; Jim Seymour; Lara; Michael Ram; Roger.Johnston@genesisenergy.co.nz; Syd Hunt; Sharon Wray  
**Cc:** Paul Hodgson; Steve Kirkman; Bob Sheppard  
**Subject:** RE: VTC Change Request: BPP Trustee

Jo

Contact does not support Vector's change request, that was attached to Vector's email dated 21 January 2009 that is attached below, that proposes amendment of section 8.25 of the VTC to allow the BPP Trustee to borrow funds to enable funds to be paid from the BPP in excess of payments to the BPP.

The reasons why Contact does not support this change request have been discussed in considerable detail in relation to change requests proposed by Contact that sought to limit payments from the BPP to payments made to the BPP and attempted to place an obligation on Vector to pursue payments owed to the BPP. Contact believes it is inappropriate for shippers to have to make payments to the BPP related to imbalances that they did not cause.

Contact now believes that it is clear that there are significant gaps in the VTC description of how the BPP operates and that the operation of the BPP should be comprehensively addressed.

Contact believes that operation of the BPP was unresolved at the time negotiation of the VTC was concluded. This is clearly established in the following email exchange. Attention is drawn to points 6 and 7 of Contact's 22 November 2007 email.

Email dated: 22 November 2007

To: Roger Johnston, Alex Love

Copied to: Sarah Sinclair, Sharon Wray, Charles Teichert, Duncan Jared, Judith Harper, Tim Whiteley, David Coull, Karen Pulley, Steve Kirkman, Jo Murray

Subject: Vector Transmission Code

Hi All

We have appreciated the input on issues throughout the process to arrive at the VTC as posted. Contact and its advisers offered a set of comments in the final phase of the process which VT and its advisers considered. We adopted some, thought some unnecessary and considered some substantive and therefore outside the scope of the final drafting phase. VT will not be revisiting it before 1 December.

Any substantive points which shippers would like to pursue can be considered via the amendment process which does not require the GIC's involvement in the first instance.

I acknowledge shippers' desire for VT's dispute with MDL to be resolved. Jo and I are focussing on this to get it in place (as well as the other necessary documentation) by the end of next week.

In relation to the Shipper vs Non-Code Shipper issues, a simple solution is in the hands of the three potential Non-Code Shippers.

Am I to take the assumption of at least December cash-out (presumably Frankley Road as the others appear to have cleared) as an indication that Shippers do not intend rectify their positions by the end of the month?

Kind regards

13/03/2009

Paul

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**From:** JOHNSTON, Roger (GLN) [mailto:Roger.Johnston@genesisenergy.co.nz]  
**Sent:** Thursday, 22 November 2007 4:21 p.m.  
**To:** Jo Murray; LOVE, Alex; Paul Hodgson  
**Cc:** SINCLAIR, Sarah (GLN); Sharon Wray; Charles Teichert; Duncan Jared; Judith Harper; Whiteley, Tim; Coull, David; Pulley, Karyn KXP; Steve Kirkman  
**Subject:** RE: Vector Transmission Code

Further to my earlier email I believe there is a high risk of December cash outs being disputed (assuming there is at least one) in December if some of the changes proposed by Contact are not made and there are Non Code Shippers using the Vector transmission system. The change process is unlikely to be able to be implemented quickly enough to make the necessary corrections.

I suggest that in this context the definition of Running Mismatch needs to be amended to take account of a Shippers (and Non Code Shippers) RMM at the commencement of the new TSA (similar to Contact's point 4).

Cheers

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**From:** Jo Murray [mailto:Jo.Murray@vector.co.nz]  
**Sent:** Thursday, 22 November 2007 12:26 p.m.  
**To:** LOVE, Alex; Paul Hodgson  
**Cc:** JOHNSTON, Roger (GLN); SINCLAIR, Sarah (GLN); Sharon Wray; Charles Teichert; Duncan Jared; Judith Harper; Whiteley, Tim; Coull, David; Pulley, Karyn KXP; Steve Kirkman  
**Subject:** RE: Vector Transmission Code

All

Vector closed the negotiations on the VTC early last week on the understanding that shippers could make written suggestions as to final drafting matters but that Vector could choose to adopt or not adopt these, in its sole discretion. Vector considered each submission in good faith and amended the penultimate version of the VTC where Vector agreed with the suggestions of participants and those suggestions related to clear errors in, or deficiencies of, the penultimate version. In particular, I stayed clear of: (a) making what I would call "changes to substance" if not all shippers raised the issue or new clauses would have been required – to do so would have been unfair – issues of substance should be discussed by the wider group and can be caught by the Change Process where agreement on the drafting could then take place; and (b) giving unnecessary confirmations. Had I added new clauses in the final VTC at one parties' request I would, in my view quite rightly, have been criticised, so I steered well clear of this.

Clearly, on some matters Vector has considered change unnecessary. I am happy to respond to each of your points in due course Alex, but we were clear the adoption of the submissions of shippers was at Vector's discretion. Furthermore, having finalised the VTC my focus is now on the settlement arrangements with MDL, so that as at 1 December we can begin open access afresh with a clear set of guidelines and parameters for dealing effectively with operational imbalance. The Change Request Process is available to us all, on execution of TSAs, and my suggestion is that any outstanding concerns be dealt with through that process. I myself have noticed an "and" that probably should be an "or", but will hold off putting a Change Request through until a few more of these types of errors have been identified – and they will be identified, that this the nature of a 100+ page negotiated arrangement. You should have gained the impression from this year's process that Vector is more than happy to engage with you to improve arrangements and the forums for doing so have been set up (i.e. through the change process; and through "Paul's List", so let's use them.

On the subject of "Paul's List", we have had minimal feedback on the order, expected timeframes and resources associated with the matters on the list. I appreciate that many of you will have moved on to finalising feedback on the GIC's contingency and transmission access papers but the sooner we can finalise the list and commit to a process around each of the items, the sooner we can move through dealing with each of them. Vector is happy commence

work on the matters that relate directly to it and to act as a facilitator in relation to the other matters but we all need to commit the time and effort to the process.

As regards the GIC and the Change Process, I have yet to receive the documentation from the GIC. But as I have said previously, I will continue to chase this and circulate it for discussion once it arrives.

Kind regards, Jo

Jo Murray  
Commercial Manager - Gas Transportation  
Vector Gas Limited

Direct: +64 4 462 8676 | Fax: +64 4 462 8625 | Mob: +64 27 291 2651

Email: [jo.murray@vector.co.nz](mailto:jo.murray@vector.co.nz)

**From:** LOVE, Alex [<mailto:Alex.LOVE@contact-energy.co.nz>]

**Sent:** Thursday, 22 November 2007 11:41 a.m.

**To:** Jo Murray; Paul Hodgson

**Cc:** JOHNSTON, Roger (GLN); Sinclair, Sarah; Sharon Wray; Charles Teichert; Duncan Jared; Judith Harper; Whiteley, Tim; Coull, David; Pulley, Karyn KXP

**Subject:** Vector Transmission Code

Jo and Paul

We have reviewed the version of the VTC that Vector posted on the OATIS website on Monday, 19 November. We were surprised that many of the corrections and changes identified in our email of 16 November 2007, commenting on the penultimate draft of the VTC, had not been adopted. Contact believes that a number of the important points raised in our email have not been dealt with appropriately, or at all, in the posted version of the VTC. As a result, the version of the VTC posted on OATIS on Monday is deficient and will not work properly and certainly not in the manner indicated to us by Vector at the workshops.

The following is the list of the most important issues that we believe must be addressed before the initial version of the VTC can be considered finalised. That does not mean that we consider our other points are not also important. Contact identified a number of other issues with the draft VTC. However, in the interests of moving things forward as quickly as possible, we have limited our comments below to those things that will create real operational difficulties and uncertainty for shippers and Vector going forward. We believe it is important that these issues are appropriately addressed.

### 1. Shipper and Non Code Shipper definitions

It is fundamental to the operation of the VTC (and, in particular, the balancing arrangements) that the persons Vector allows to ship gas on its pipelines are either "Shippers" or "Non-Code Shippers". The proposed definitions of Shippers and Non-Code Shippers means we have no assurance the only persons Vector is providing transmission services to are Shippers and Non-Code Shippers. Vector should be comfortable to confirm to the parties it expects to sign the VTC that the only persons shipping gas on the Vector pipeline are Shippers and Non-Code Shippers (and indeed Vector is the only party who can provide that confirmation).

### 2. STOS Imbalance

It is impossible for Shippers to determine the risk arising from the inclusion of STOS Imbalance in Vector Imbalance. Vector must make these arrangements transparent to Shippers (by providing a copy of the proposed agreement (or at least an accurate summary of it) and confirmation the agreement has been signed by all parties) and provide an express, written undertaking that, in taking on the STOS Imbalance, all the risks and obligations related to that have been passed to MDL and no residual risk will be borne by Vector or Shippers.

### 3. Definition of Transmission Services Agreement

The definition of Transmission Services Agreement is clearly wrong as Supplementary Agreements and Existing Supplementary Agreements will not have a valid and binding transmission services agreement in the

form set out in Schedule One. Also, our changes to the Supplementary Agreement and Existing Supplementary Agreement definitions have not been included as suggested nor were the related changes we suggested to clauses 2.7(d) and (e). Vector undertook in the workshops to correct these definitions and this has not yet been done satisfactorily. Those definitions and clauses are used in the VTC to define the rights and obligations of the various shippers using the Vector pipeline and it is essential they are correct. We do not expect any of the suggested changes should cause any concern to Vector in light of discussions at the workshops.

#### **4. Definition and Calculation of Vector Running Imbalance**

The starting point of the calculation of Vector Running Imbalance and Non-Code Shipper Running Mismatch must be clear. In our view, and for consistency with the calculation of Running Mismatch, the calculation of Vector Running Imbalance and Non-Code Shipper Running Mismatch should open with a zero imbalance upon the commencement of open access and be calculated from that point in time forward. This should be made clear in the definition of Vector Running Imbalance.

#### **5. Clause 8.13(a)(i), adjustment of Shipper Allocation Formula**

The modified formula is not correct and will not work. The addition of the phrase providing for the replacement of "Running Mismatch" with "Mismatch" must be extended to provide for the replacement of "Vector Running Imbalance" with "Vector Imbalance".

#### **6. Clauses 8.13(a), 8.13(b), 8.18(a), and 8.19(a), matching payments into and out of the BPP**

These clauses provide for payments into the BPP and payments from the BPP resulting from the same event but they do not address circumstances when the obligation to make payments from the BPP exceeds the obligation of shippers to pay money into the BPP. This situation must be addressed in the VTC. It would be unacceptable if it was to result in "innocent" Shippers covering costs created by "guilty" shippers (e.g. were the BPP to be consistently in overdraft and Vector sought to recoup that cost through tariff adjustments). Contact proposed an addition to each of these clauses to address this issue. This point links directly to the point made immediately below.

#### **7. Clauses 8.13, 8.18 and 8.19, Vector's obligation to pay the Non-Code Shippers' portions into the BPP**

Clauses 8.13, 8.18 and 8.19 must contain an express obligation on Vector to pursue Non-Code Shippers under the equivalent provisions in their transmission services agreements to pay their share of the BPP costs and also for Vector to pay amounts it recovers from Non-Code Shippers into the BPP. Although Vector indicated in the workshops that this would occur, the Shipper parties who sign the VTC must have a contractual assurance from Vector that it will do each of those things. It is also necessary for Vector to confirm that each Non-Code Shipper's transmission services agreement contains provisions which have the same effect as each of sections 8.13, 8.18 and 8.19 (i.e. requiring Non-Code Shippers to make such payments into the BPP).

This is a significant issue for Shippers. If Vector does not have an obligation (that is enforceable by Shippers) to recover BPP costs from Non-Code Shippers, there is a very real possibility that a large funding deficit could occur in the BPP. Such a situation would fundamentally undermine the way in which the BPP was intended to operate and would be inconsistent with the very lengthy discussions in the workshops Vector and shippers had regarding the operation of the BPP.

#### **8. Clause 8.16, reference to clause 7.16(a)**

The reference to clause 7.16(a) is incorrect and should be to 8.16(a).

#### **9. Clause 8.17(c), reduction of Vector's and Shippers' liability**

The aggregate liability of Vector and Shippers to pay into the BPP must be reduced by amounts recovered from Non-Code Shippers under clause 8.16(b). If this is not done, there could be too much money paid into the BPP.

#### **10. Clause 8.19, Vector's obligation to pay**

Vector must have an express obligation to pay into the BPP the amounts attributable to Vector Running Imbalance. This is in addition to ensuring that Non-Code Shippers pay their share of any Cash-out costs into

the BPP. If this is not done, it is not clear on the face of the VTC that the BPP Account will contain sufficient funds to cover the Cash-out costs. We note you have accepted that Vector should pay funds into the BPP in the context of section 8.13.

### 11. Clauses 16.5(b)(iii) and (iv), provision of positive and negative Vector Running Imbalance

The purpose of the inclusion of the listed information under clause 16.5 was to allow Shippers to perform some reasonable checks to confirm the accuracy of invoices. The provision of positive and negative Vector Running Imbalance is required to perform these checks.

### 12. Clause 16.5(c)(iii), provision of the aggregate contribution of Non-Code Shippers

Again, to enable Shippers to perform some reasonable checks to confirm the accuracy of invoices the provision of the aggregate contribution of Non-Code Shippers should be provided.

### 13. Posting of the VTC on OATIS

We remind you that in our 16 November submission that we thought it inappropriate to post the VTC on OATIS until issues arising under the VTC are known, such as the status of the MDL custody agreement and CIC confirmation of its role under the Change Process.

Contact believes Vector should properly consider and respond to each of the points above and confirm that it will amend the VTC to address these points or, if it declines to do that, to provide full reasons for that. We would appreciate the opportunity to meet with you to further discuss these points.

Regards

**Alex Love**  
**Manager Gas Markets**



**CONTACT**

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Regards

**Alex Love**  
 Manager Gas Markets



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**From:** Jo Murray [mailto:Jo.Murray@vector.co.nz]  
**Sent:** Wednesday, January 21, 2009 4:54 p.m.  
**To:** LOVE, Alex; Anna Carrick; Blair Boswell; Charles Teichert; davidemerson@multigasnz.com; Duncan.Jared@mightyriver.co.nz; Jim Raybould - MRP; Jim Seymour; Lara; Michael Ram; Roger.Johnston@genesisenergy.co.nz; Syd Hunt; Wray, Sharon  
**Cc:** Paul Hodgson; Steve Kirkman; Bob Sheppard; Jo Murray  
**Subject:** VTC Change Request: BPP Trustee  
**Importance:** High

All,

Attached is a VTC Change Request in respect of the BPP Trustee. The need for this Change Request is an unexpected development and one that only came to light as a result of a question from our new banking services provider. An overdraft facility was always contemplated by those involved in the negotiation of the VTC. As it is now after 4pm (and taking into account Auckland Anniversary Day and Waitangi Day), in accordance with the VTC, responses are due by close of play on 13 February 2009. If you choose to respond by email, please clearly support or reject the Change Request.

The GIC is aware of this issue, and I believe, understands that you may wish as a result to

13/03/2009

submit further on the Draft Determination in respect of Contact's appeals. Please contact me directly if you have any queries.

Kind regards, Jo

Jo Murray

Commercial Manager - Gas Transportation

Vector Gas Limited

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