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Ian Wilson
Gas Industry Company
Ian.wilson@gasindustry.co.nz

Dear Ian

**Draft Recommendation on the 14 February 2014 MPOC change Request:
Vector Limited's Submission**

1. Vector Gas Limited and Vector Gas Contracts Limited ("Vector") welcome the opportunity to make a submission on the Gas Industry Company's (GIC) draft recommendation on Maui Development Limited's ("MDL") Change Request to the Maui Pipeline Operating Code ("MPOC") dated 14 February 2014 ("change request").

2. This submission is not confidential and we are happy for it to be made publicly available.

3. Vector's contact person for this submission is:

Anna Carrick
Manager, Natural Gas Trading
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GIC proposal to amend the change request

4. After issuing its draft recommendation, the GIC circulated an email proposing, at MDL's request, to amend the change request by removing the words "MDL's published terms and conditions and" from section 3A.4. The GIC has asked for a statement from each signatory to the MPOC as to whether they support or do not support the removal of those words.

5. We have prepared our submission on the basis of the un-amended change request but have some points to make on the proposed amendment.

6. Vector supports the removal of the reference to MDL's published terms and conditions from section 3A.4. However, we object to the process adopted for the purpose. It should always be clear to parties to the MPOC the exact change they are being asked to submit on. In this case, all submissions are being made in relation to the initial change request, which is now being amended via a "side letter", before a final decision as to the amendment to section 3A.4 has been made. We believe the correct process is for MDL to withdraw the change request and submit a new change request, beginning a fresh consultation process.

Submission on the original change request

7. Vector disagrees with the GIC's conclusion that the MPOC will better meet the objectives of the Gas Act if the proposed change is adopted. For the reasons set out below, we submit that the proposed change request would have an overall negative effect on the Gas Act objectives.
8. The draft recommendation identifies issues which it suggests require further industry discussion. Those issues include:
 - Limited access to the BGX – both as a barrier to competition and the opportunity it presents for arbitrage
 - MDL's scope to set the terms for the purchase and sale of Balancing Gas – in particular the level of consultation and oversight by the GIC in the setting of those terms
 - The treatment of Balancing Gas as a product distinct from Gas – in particular the proposition that parties may in future be required to prove delivery of Balancing Gas.
9. The GIC asserts that because those issues would exist with or without the change request they do not affect the assessment of whether the change request will enhance or negate the objectives of the Gas Act.
10. Vector submits that those issues are relevant to the overall assessment because the change request would entrench or exacerbate their effect on the Gas Act principles.
11. A change request which makes it harder to address issues which are adverse to the Gas Act objectives, or makes it easier to make future unilateral changes which may be adverse to the Gas Act, should be considered overall as detrimental to the objectives.
12. Presently, only limited balancing occurs on the Maui Pipeline but Vector expects balancing to increase significantly when B2B is implemented, as balancing corrections will occur over a shorter period (i.e. a day rather than 3 days). Negative aspects of the balancing arrangements, such as restricted access to the BGX, currently have limited impact on customers because balancing is infrequent. However, as the frequency of balancing transactions increases, we believe the negative impacts on customers will increase and that the amendments are therefore inconsistent with the Gas Act principles.
13. Section 3A.4 sets out principles applying to the trading of Balancing Gas which have been consulted on and approved by the GIC. The incorporation of MDL's published terms and conditions in section 3A.4 will give them equal weight to those principles. Amendments to the terms and conditions will effectively constitute amendments to the principles. We consider that this is a change to the status of, and relationship between, the terms and conditions and the principles.¹
14. MDL has stated that it is reserving the right to amend its published terms and conditions to require parties to prove actual delivery of balancing gas. Changes being made to terms and conditions outside the MPOC should be subject to checks and balances that involve meaningful consultation, particularly if they are incorporated by reference into the MPOC.

¹ As per the GIC's questions in section 6.2 of the draft recommendation.

15. Vector therefore submits that the GIC should decline to support the change request.

Yours sincerely

A handwritten signature in blue ink that reads "Brenda Talacek". The signature is written in a cursive, flowing style.

Brenda Talacek
Group Manager, Commercial Relationships

