

SETTLEMENT AGREEMENT

(Regulation 24(1) Electricity Industry (Enforcement) Regulations 2010)

DATED:

BETWEEN:

- (1) **Carter Holt Harvey Limited**, of State Highway 1, Tokoroa (**CHH**)
- (2) **Transpower New Zealand Limited**, of Level 7, 96 The Terrace, Wellington, in its capacity as System Operator (the **System Operator**);
- (3) **TrustPower Limited**, of Truman Road, Te Maunga, Mt Maunganui, (**TrustPower**);

(Collectively the **parties**).

BACKGROUND:

- (A) On 23 April 2012, CHH reported to the Electricity Authority (Authority) that on 28 March 2012 CHH had breached clause 13.82 of the Code.
- (B) In accordance with regulation 12 of the Regulations, the Authority appointed an investigator to investigate the Alleged Breach.
- (C) The System Operator and TrustPower joined the investigation as affected participants.
- (D) The Authority also alleges that CHH breached clause 13.18(1)(b) of the Code when it failed to submit a revised offer after becoming aware that its ability to generate had changed.
- (E) The parties have agreed to settle the Alleged Breaches on the terms contained in this Agreement.

IT IS AGREED:

1. Interpretation

1.1 In this Agreement, unless the context requires otherwise:

- (a) **Agreement** means this Settlement Agreement;
- (b) **Alleged Breaches** means the alleged breaches of the Code arising from the Circumstances and described in clause 2;

- (c) **Approval Date** means the date the parties to this Agreement are notified that the Board of the Electricity Authority has approved this Agreement under regulation 24(4) of the Regulations;
- (d) **Board** means the Board of the Electricity Authority;
- (e) **Circumstances** means the circumstances set out in clause 3;
- (f) **Code** means the Electricity Industry Participation Code 2010;
- (g) **Regulations** means the Electricity Industry (Enforcement) Regulations 2010;
- (h) all capitalised terms not defined in this Agreement have the same meanings as in the Regulations or Code, as the case may be; and

2. Alleged Breach

2.1 Clause 13.82 of the Code provides:

13.82 Dispatch instructions to be complied with

Each **generator** or **ancillary service agent** must comply with a **dispatch instruction** properly given by the **system operator** in accordance with clauses 13.73 or 13.74 except if...

Note: None of the listed exceptions applied in this case.

2.2 CHH self-reported that it had breached clause 13.82 when it failed to meet dispatch instructions issued by the System Operator.

2.3 Clause 13.18(1)(b) provides:

13.18 When revised bids or offers must be submitted

- (1) Before the beginning of the **trading period** to which the **bid** or **offer** applies, despite subclause (2) and clause 13.19, a **purchaser** or a **generator** (other than an **intermittent generator** submitting an **offer** under clause 13.17) must immediately submit revised **bid** or **offer** quantities to the **system operator** if—
...
 - (b) in relation to the quantities specified in the last **pre-dispatch schedule published** by the **system operator**, the ability of a **generator's generating plant** to generate the quantity scheduled for a **trading period** at a **grid injection point** is expected by that **generator** to change by more than 10 **MW** or 10% of the quantity scheduled (whichever is smaller); or...

2.4 The Authority has alleged that CHH breached clause 13.18(1)(b) when it failed to submit a revised offer for the trading periods commencing at 04:00 and 04:30 on 28 March 2012.

3. Circumstances of the Breach

- 3.1 CHH has a co-generation status, allowing a +/- 5 MW band of compliance with dispatch instructions. TrustPower acts as CHH's offering agent. Ordinarily dispatch instructions for CHH are received by TrustPower. TrustPower advises CHH of the dispatch and monitors the actual output. Whenever necessary, TrustPower submits revised offers.
- 3.2 The CHH boiler operation room staff are not tasked with monitoring compliance with dispatch instructions and submission of revised offers. This is the responsibility of the CHH's shift manager, who also has a number of other tasks related to overall paper mill operations.
- 3.3 The breach occurred on 28 March 2012, during a maintenance day shutdown, which was to take the turbine offline to check for generator damage from a switching error that occurred on 16 January 2012.
- 3.4 The original plan was for the maintenance shutdown to begin at 04:00 and the forecast offers reflected this. However, shortly before 04:00 the Area Manager for CHH changed the shutdown start time to 06:00.
- 3.5 The CHH Shift Manager (for the nightshift) did not realise the discrepancy in the offers and generation levels and followed the revised production plan without updating TrustPower prior to 04:00. As a result, TrustPower did not submit a revised offer on behalf of CHH. CHH says that human error is the primary cause of the breach.
- 3.6 CHH continued to generate at 20MW above its zero offer for the 04:00 and 04:30 trading periods and did not comply with the dispatch instruction to go to zero.
- 3.7 TrustPower submitted a revised offer shortly before 05:00 and CHH was dispatched for generation of 20MW from 05:00 until the planned shutdown at 06:00.

4. Impact of Breach

- 4.1 The parties agree that the market impact of the breach of clause 13.82 (though not quantified) is likely to have been minimal. Non-compliance with the dispatch instructions and not submitting a revised offer resulted in CHH's Kinleith generator displacing around 25 MWh of more expensive marginal and frequency keeping generation over two trading periods.
- 4.2 In this particular case, the potential for a security impact was low. However, under different system conditions, non-compliance with dispatch instructions and not submitting a revised offer could have a significant security impact, especially on voltage control and on management of frequency.
- 4.3 The operational impact of the breach of clause 13.82 was that the System Operator had to manage the power system without any knowledge that CHH could not comply with dispatch instructions.

5. Steps taken to prevent recurrence

- 5.1 CHH has stated that it is retraining Shift Managers and training new Shift managers on procedures, especially around shutdown and start up times during maintenance day shuts of the plant.
- 5.2 CHH has stated that it has improved forecast offer tracking in its mill information system so the full week forecast is loaded into the information system and Shift Managers can observe the forecast without having to refer to other documents.

6. Settlement

6.1 CHH agrees to:

- a) Review refresher training on procedures for and procedures receiving dispatch instructions, monitoring output and when there is a need for revised offers. This will be implemented within one month of the execution of this agreement.
- b) Improving offsite monitoring by updating notification process between CHH and TrustPower (in a separate procedure document) to include the extent of monitoring by TrustPower, within two months of the execution of this agreement. The aim of this requirement is to document improvements in the offsite monitoring that TrustPower operations team carries out.
- c) Implement improvements at the plant monitoring level to improve the responsiveness of monitoring dispatch and revising generation levels. This is to include a communications and alarm upgrade for the Shift Manager, so they can be kept better aware of changes in turbine output while in the field. The improvements include:
 - (i) an interim measure of text alerts from the Mill information system(MIS), and reliability testing of this alert system in a heavy machinery environment, to be in place within 2 months of the execution of this agreement; and

- (ii) investigating a longer-term solution with a real-time connection to the MIS through a smart device, with options for this to be investigated within 12 months of the execution of this agreement and implemented (subject to feasibility and cost) within 18 months of the execution of this agreement.

7. Agreement Subject to Approval

- 7.1 This Agreement takes effect on the date it is approved by the Board under regulation 24(4) of the Regulations.

8. Settled Breaches

- 8.1 The terms of this Agreement are a full and final settlement between the parties to this Agreement of all claims and liabilities under the Regulations and Code relating to:

- (a) the Alleged Breaches; and

- (b) any other breaches of the Regulations and Code, involved in or arising from the Circumstances.

- (together the “Settled Breaches”)

- 8.2 In accordance with regulation 24, but subject to regulation 26 of the Regulations, this Agreement is also binding on the Board and all Participants who are not a party to the Agreement to the effect that:

- (a) the Board may not on its own initiative instigate a further breach investigation, or take any enforcement action, in respect of the Settled Breach; and

- (b) a Participant who is not a party to this Agreement may, in accordance with regulation 26, make a further notification under regulation 7 or 8 of the Regulations in relation to a Settled Breach and the Board may then take all or any of the steps provided for in the Regulations notwithstanding this Agreement.

9. General

- 9.1 Each party will execute all documents and do, or refrain from doing, all other things necessary or desirable to give full effect to the provisions of this Agreement, including to secure the Board’s approval of this Agreement under regulation 24(4)(a) of the Regulations.

- 9.2 This Agreement is the whole and only agreement between the parties in relation to the settlement of claims, actions and demands arising from the Circumstances. Each party acknowledges that it has not been induced to enter into this Agreement by any representation made by or on behalf of the other party that is not repeated in this Agreement.

- 9.3 This Agreement may be signed in any number of counterparts.

SIGNED:

For **Carter Holt Harvey Limited** by:

Name:
Position:

For **Transpower New Zealand Limited** by:

Name:
Position:

For **TrustPower Limited** by:

Name:
Position: