

Market Governance Update

February 2010

Welcome to the first market governance update for 2010. The Commission's Electricity Governance Committee had its first meeting of the year in late January, and this update covers the numerous decisions made at that meeting.

We expect many participants will be interested in the decisions the Committee made on the proposal to publish the minutes of the Committee's meetings, and the proposed guidelines for reporting breaches of the Rules. This update addresses both those decisions.

Also in this update are three case studies of Rule breaches. These particular breaches have been chosen for publication because the learnings they contain are likely to be useful to other participants. We thank the parties involved for permitting us to share the details of these cases with others.

EGR Committee decisions on proposals under consultation

At its meeting on 27 January 2010, the EGR Committee considered submissions and made decisions on two proposals it had consulted participants on:

1. Proposal to publish the EGR Committee meeting minutes

Participants had requested the minutes be published to improve the transparency and understanding behind the Committee's decisions.

The Commission received six submissions on the proposal. All submissions agreed the minutes should be published to increase transparency. However, a participant sought the strict application of regulation 66 of the Electricity Governance Regulations, which would have required the Committee to obtain the agreement of participants before publishing the minutes.

It would not be practical to obtain each participant's agreement to publish information that related to each and every breach allegation, and compliance with this submitter's request would mean that the minutes could not be published in a timely manner. Therefore, with regret, the EGR Committee decided not to publish Committee minutes.

The Commission is considering whether changes to the regulations should be recommended to permit a pragmatic and timely publication of the Committee's decisions on all matters that it considers.

The submissions can be found [here](#):

<http://www.electricitycommission.govt.nz/submissions/compliance/egr-minutes>

New Breach Report Form

Market Governance has updated the form participants use to report breaches of the Rules. The form has been changed to reduce the time participants and the Commission spend on the fact finding stage.

The new form can be downloaded [here](http://www.electricitycommission.govt.nz/rulesandregs/compliance/index.html#form):
<http://www.electricitycommission.govt.nz/rulesandregs/compliance/index.html#form>

Up to date copies of the EGRs

It's important that staff use up to date copies of the Electricity Governance Rules. In a couple of recent incidents out of date versions of the Rules were being used, and operators weren't aware of what the current regulatory obligations are.

Please ensure your staff are supplied with current versions of the Rules and if you are working from bound versions, please make sure they are updated regularly.

The current Rules are always available on the Commission's website.

Here is a link to the current Rules:
<http://www.electricitycommission.govt.nz/rulesandregs/rules>

2. Proposed Guidelines for reporting breaches of the Rules

The Committee considered the submissions received on the proposed Guidelines to report breaches of the Rules. Broadly, submitters agreed that the administrative and compliance burden of managing minor breaches had to be minimised. However, a number of submitters did not support the Commission's proposal that minor breaches that do not relate to quality and security need not be self-reported.

Submitters considered it important for the Commission to have a full view of all breaches in order to monitor how the Rules are working and to inform changes to the Rules where necessary. A number of submitters believed that full self-reporting is necessary in order to encourage an appropriate compliance culture within participants' organisations.

Full self-reporting is not currently required under the Electricity Governance Regulations, except in relation to quality and security breaches, and this was reflected in the proposed Guidelines. In considering submitters' views on the desirability of full self-reporting, the Committee was mindful that it did not wish to create additional administrative burden either for itself or for participants.

The EGR Committee therefore decided to withdraw the proposed Guidelines and investigate a regulatory change clarifying participants' self-reporting obligations. Participants will be kept updated on progress with this.

Overview of selected breaches considered at January EGR meeting

Open Files

At this month's meeting the EGR Committee made decisions on 36 breach notifications. A summary of the decisions is in the table at the end of this update. After the meeting the Market Governance team had 39 open breach notifications files comprising 16 investigations in progress, 4 on hold and 19 in the fact finding stage.

Breach of the Policy Statement

On 27 January 2010, the Committee considered one breach of the Policy Statement and 10 breaches of various rules of part G of the Rules, self-reported by the System Operator.

The breach of the Policy Statement concerned the failure to undertake the review of credible events by 31 December 2008, due to resourcing constraints within the System Operator. The review was completed in December 2009. The review process has been put in place to manage the outcomes of events that may cause a cascade failure. The failure to undertake the formal review process within the specific timeline meant that

Next EGR Committee meeting

The next EGR Committee meeting is scheduled for 18 March 2010.

Contact us

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participants did not have the assurance that all credible events had been identified and that processes had been put in place to manage these events.

The System Operator considers that there is minimal actual market and operational impact from this breach. The Committee accepted that there has been minimal impact as a result of this breach and because the review has now been completed the Committee declined to pursue the breach. However, the Committee viewed the potential security impact as serious and issued the System Operator with a warning letter.

Various breaches of part G

A number of breaches of part G that were self-reported by the System Operator were considered by the Committee. Previously the System Operator had advised the Committee that it expected to significantly improve its compliance in some of these areas once the new market system was implemented. The Committee accepted that there would inevitably be teething problems with any new computer system, but did seek comfort that the level of compliance that the market system was supposed to deliver will in fact eventuate.

The Committee decided to decline to pursue the breaches in accordance with regulation 67(1)(c) of the Electricity Governance Regulations 2003. However, the Committee did warn the System Operator that it expects strict compliance with the requirements of the Rules in the future and will monitor the System Operator's compliance in this regard.

The Committee also asked the System Operator to attend the next Committee meeting to discuss the issues raised.



Case Studies

Case Study One: Grid emergencies and ancillary service provider obligations to provide interruptible load

On 14 October 2009 the System Operator declared a grid emergency for the North Island due to insufficient energy and reserve offers. Following the declaration of the grid emergency one ancillary service provider advised the System Operator that it was removing a significant amount of load (comprising half interruptible load (IL) that was dispatched as fast instantaneous reserve (FIR) and some other load). The participant advised the Board that the reason for revising its offer was “High Prices as per Grid Emergency”. Following an inquiry by Market Governance, the participant admitted that it may have breached rule 8.2.2 of section III of part G of the Rules. Rule 8.2.2 prohibits ancillary service agents from reducing the quantity of instantaneous reserve during a grid emergency.

The breach was a result of an error of judgement by an operator and had minimal market impact. However, withdrawal of a significant amount of FIR in a time of grid emergency is a potentially serious breach that could have had serious consequences for the system security.

Since this event the Commission released a Guideline, “Demand-side responsibility during Grid Emergencies”, outlining steps which should reduce confusion by IL providing participants on their obligations to continue to provide interruptible load during grid emergencies, particularly when the instantaneous reserve requirements are reduced.

More details can be found [here](http://www.electricitycommission.govt.nz/infopapers/index.html#wholesale) <http://www.electricitycommission.govt.nz/infopapers/index.html#wholesale>

Case Study Two: Compliance plan for non-compliant assets

This case study shows how the Commission’s Market Governance team worked with one participant to develop a process that resulted in assets that previously failed to meet technical requirements of the Rules, being made compliant with the Rules.

Before 1 March 2004, Meridian Energy (Meridian) had sought dispensations from the System Operator for assets that did not comply with the technical requirements for protection systems, generators’ governors, and the minimum required indications and measurements as required by various rules in part C. On 1 March 2004, the System Operator declined to grant dispensations for most of Meridian’s non-compliant assets. On 26 February 2004, Meridian reported potential breaches of various rules in part C related to technical requirements for generation assets and communication information systems.

The Commission’s Market Governance team worked with Meridian to develop a process that provided for the creation and monitoring of a Compliance Plan, setting out how Meridian would address its non-compliance with the Rules. The EGR Committee has approved a number of compliance plans advised by other participants in cases where achieving compliance requires significant time, planning, and resources.

Meridian presented a draft of the Compliance Plan in May 2007 dealing with breaches of rule 4.4 of technical code A of schedule C3 of part C, which relates to protection of assets and the grid. A progress report was provided to Market Governance in December 2008. According to this report the only non-compliant assets were units at Manapouri scheduled for an upgrade before the end of 2009.

On 23 October 2009, Meridian advised that the Manapouri upgrades were completed and all of its assets were compliant with the requirements of rule 4.4. The System Operator is satisfied that Meridian is compliant with this rule. The earlier reported breaches have now been closed.

Case Study Three: The importance of checking backup systems are operating

A case considered by the Committee last year illustrates the importance of not only *having* a backup system in place to acknowledge dispatch instructions, but also periodically *testing* that system.

In this case the participant had a system in place, but a loose power cable meant the system failed and the participant breached the Rules by failing to acknowledge receipt of a dispatch instruction within the required timeframe.

A dispatch instruction was issued at the same time as the sole operator briefly stepped out of the control room. Back up processes didn't alert the operator that the instruction hadn't been acknowledged after two minutes. The instruction was acknowledged only after the operator returned to the control room, over 6 minutes after the instruction was received.

In this case the backup system failed because a loose power cable meant a modem didn't make the call to alert the operator of the dispatch instruction. As a result of the breach the participant now has a monthly reminder to check the modem and do a test dial from the GENCO application. This relatively simple solution may prevent breaches of the Rules.

The case is particularly relevant for participants that have sole operators responsible for acknowledging dispatch instructions.

Summary of EGR Committee decisions on breach notifications at January 2010 meeting

Rule breached	Self-reported	Action taken and reasoning given
Part C		
Rule 4.4 of Technical Code A of schedule C3	Y	Declined to pursue. The Commission and the party have worked together to establish a compliance plan. A progress report on implementation of the plan identified the only non-compliant assets were scheduled for upgrade and those upgrades have since been completed. The System Operator is satisfied the party is now compliant with the Rules.
Clause 13.1 of schedule C4	Y	Declined to pursue but issued a warning letter. There was minimal impact as a result of this breach but the breach had the potential to have a serious security impact. The party's failure to undertake, within the specified timeframe, a formal review of its policy for managing events did not provide the Committee with the assurance it desired that all credible events were identified and that processes were in place to manage such events if they occurred.

Part D

Rule 3.2 (3 breaches)	Y	Declined to pursue – early closure.
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Part E

Rule 2 of part E and rule 4.5 of schedule E3	N	The Committee did not consider the Investigator's report as it wanted to consider a party's submission in response to report.
Rule 6 of part E and rule 2.3 of schedule E1	N	Declined to pursue – early closure.
Rule 7 of part E, rule 2.2 of schedule E1, and rule 5 of schedule E1	N	Declined to pursue – early closure.
Rule 7 of part E, rule 2 of schedule E1	N	Declined to pursue – early closure.
Rule 24.2.1 of part E	N	Declined to pursue – no market impact and the breach is unlikely to recur.
Rule 24.2.4 of part E	N	Declined to pursue – early closure.
Rule 4.3 of schedule E2	Y	Declined to pursue – early closure.
Rule 4.3 of schedule E2	Y	Declined to pursue – early closure.

Part G

Rule 3.4 of section II (2 breaches)	N	Declined to pursue – early closure.
Rule 4.9.1 and rule 4.9.2 of section III	Y	Declined to pursue but issued a warning letter. While the breaches had no market or operational impact it remained undiscovered for a long period and highlighted that better documentation is required to assist staff.
Rule 4.9.3 of section III	Y	Declined to pursue – an evacuation of the control room led to a situation where this rule was breached. The participant identified and took remedial actions to correct.
Rule 4.11 of section III	Y	The Committee decided not to lay a formal complaint with the Rulings Panel. The parties who joined the investigation had no settlement requirements and the remedial actions taken by the party were such that no formal settlement was thought necessary.
Rule 4.11 of section III	N	The Committee recommended that the Commission Board approve the settlement agreed between the parties. The Board approved the settlement on 16 February 2010.
Rule 8.2.2 of section III	N	Declined to pursue but issued a warning letter. Although this was the first breach of this rule by the party, and the breach had minimal market impact the breach had the potential to have very serious consequences for system security so the Committee decided to send a warning letter to the party.
Rule 10.2.3 and 10.4.8 of section III	Y	Declined to pursue –the breaches had no market or

Rule 10.4 of section III	Y	operational impact, was corrected in a reasonably short time, has not been breached previously by the party, and was associated with the introduction of new market systems.
Rule 3.11.1 of section V	Y	Declined to pursue but issued a warning letter to the party requesting an assessment of the reliability and the prompt functioning of the IT systems whose failure led to this breach.
Rule 9.1.1 of section VI	Y	Declined to pursue – early closure.
Rule 1.3.1.3 of schedule G6	N	Declined to pursue the breaches but the Committee requested the market governance team monitor the party's progress in developing functionality that will address the problem that lead to the breaches.
Rule 1.3.2.4 of schedule G6	Y	
Rule 1.3.4.7 of schedule G6	N	
Rule 1.3.1.3 of schedule G6	N	Declined to pursue the breaches but the Committee issued a warning letter. Although the breaches had negligible market and operational impact, the Committee was concerned that the software problem that led to the breaches was not identified and fixed for more than 9 hours.
Rule 1.3.2.4 of schedule G6	N	
Rule 1.3.4.7 of schedule G6	Y	
Rule 1.3.2.4 of schedule G6	Y	Declined to pursue but issued a warning letter. The breach had no market impact but the number of previous breaches and errors in the area involved in this breach were factors in the Committee's decision to issue a warning letter.
Rule 1.3.4.7 of schedule G6	Y	Declined to pursue but issued a warning letter, invited the party to attend the next Committee meeting to explain the issues that led to this breach, and implemented a system of ongoing monitoring of future issues of this type.
Rule 1.3.4.7 of schedule G6	Y	Declined to pursue but issued a warning letter. The breach did not cause any operational issues. It had minimal market impact. A warning letter was sent because the breach was part of a continuing trend of breaches caused by human error, and that trend is a matter of concern to the Committee.
Rule 1.3.4.7 of schedule G6	Y	Declined to pursue but issued a warning letter. The breach had minimal market impact although it had the potential for significant market impact. The Committee decided to issue a warning letter after considering the party has continued to breach this Rule despite assurances that new systems would improve compliance.

Part J

Rule 3 (4 breaches)	Y	Declined to pursue – early closure.
Rule 3.1 (2 breaches)	Y	Declined to pursue – early closure.
Rule 2 of schedule J4	N	Declined to pursue – no market impact and the breach is unlikely to recur.