

Market Governance Update

August 2008

Welcome to the first update from the Electricity Commission's market governance team.

Recently the Commission completed a review of its electricity market compliance framework. During the review market participants expressed an interest in hearing more about the Commission's compliance work.

We're keen to provide greater transparency to the compliance functions and improve participants' understanding of, and compliance with, the Electricity Governance Rules, so we've developed some publications for this purpose. This update on the market governance team's activities is one such initiative, and through it we will keep you informed about what the Commission is doing in the compliance area.

After each Electricity Governance Rules Committee meeting, which is generally held every six weeks, we will produce an update like this. It will:

- keep market participants informed of topical issues the Committee see
- give an overview of the notifications of rule breaches the Committee considered at its most recent meeting
- update participants on the Commission's compliance initiatives
- keep you in touch with developments from the Commission's market governance team.

If there is information that you think would improve understanding of the Rules that could be included in this update, please let us know.

Committee decisions

At the Electricity Governance Rules Committee's June meeting the Committee considered and took action on 46 notifications, some of which involved multiple rule breaches.

The Committee recommended the Commission Board approve two settlements that it had investigated. It appointed an investigator to investigate one alleged breach.

It sent 18 warning letters to breaching parties where the Committee declined to pursue the notification but the circumstances of the case warranted a warning. The Committee declined to pursue a further 15 notifications, and in those cases the breaching parties were advised of the Committee's decision and the reasons for it.

Of the 46 alleged rule breaches, there were 14 breaches of rule 4.11, five breaches of rule 6.3.3 of section II, and the remainder were spread across the rule book.

Comment from the Committee

The Committee has noted that breaches of rule 4.11 are still happening, and happening more frequently than before. The Committee is concerned to see this trend and has written a number of warning letters to breaching parties expressing its dissatisfaction.

One party's breaches of rule 4.11 were so significant that the Committee took the step of writing to the party's chief executive to express its concern.

The Committee has released a case study on rule 4.11 in the hope that the information in it will help reduce the numbers of breaches of this rule.

Compliance news

Rule breach assessment work

Between 1 June and 31 July 2008 the Commission received 45 notifications of alleged breaches of the Electricity Governance Rules. The market governance team is busy assessing those notifications for the next Committee meeting.

Compliance new continued

EISG conference

The Electricity Commission hosted the Electricity Intermarket Surveillance Group (EISG) Conference in Wellington in April 2008. At the conference representatives from eight market-monitoring and regulating agencies from Australasia and North America shared their experience in market and compliance monitoring. The agenda included the following workshops: Challenges to investigative procedures; Physical limitations of generators and methods to identify physical withholding, as well as case studies. A presentation "New Zealand Electricity Market in depth" was met with great interest.

Compliance staff changes

One of the Commission's senior investigators, Anthony Wong, has left the Commission, and we are sorry to see him go. The good news is that he is staying in the electricity industry, he's moved across the road (almost literally) to Meridian Energy. Congrats on the new role Anthony!

EGR breach assessment guidelines released

Guidelines have been approved and the Commission will shortly release the Commission's breach assessment guidelines to the industry.

The guidelines set out the criteria the Commission uses to assess the seriousness and impact of breaches of the Rules. They also record the factors that guide the Commission's consideration of whether the seriousness and impact of a breach is low, medium, or high.

First case study released

As a result of submissions received from participants during the electricity market compliance framework review, the Commission decided to produce case studies of its approach to considering breaches of the Rules.

The purpose of the case studies is to improve participants' understanding of and compliance with the Rules. The case studies will focus on the Rules that are most commonly breached, and the first one is on Rule 4.11 of section III of Part G - the most frequently breached rule.

The case studies will be released regularly and will be available on the Commission's website.

Looking forward

The next EGR meeting is scheduled for 20 August 2008.

If you would like to contact us please email us at compliance@electricitycommission.govt.nz

