

# Market Governance Update

May 2009

## Introduction

Continuing the market governance team's commitment to transparency, this month we have posted our internal operating procedures on the Commission's website. The procedures guide the Commission's process when it assesses breaches of the Electricity Governance Rules and Regulations. In making this information available we hope we'll help participants' understanding of the way our team works.

Some of you may have noticed the inclusion on the Commission's website of the list of changes that people have proposed to the Rules and Regulations that the Commission administers. When the Commission receives proposals for changes to the rules and regulations it collates and assesses these and reports to the Electricity Governance Rules Committee (the Committee). Although this report has been available on our website for a couple of months, we thought it timely to publicize this.

## Report on the Committee's April meeting

At its meeting on 30 April the Committee considered and took action on 31 rule breach notifications. Some of those notifications alleged breaches of multiple rules. To give you an indication of which parts of the rulebook, and which rules the Committee considered, and also the patterns of self-reporting and reporting by others, the table on the last page gives some statistics on the breaches considered in April.

This month's Committee meeting saw investigators appointed to 3 files and a recommendation that the Board approve a Settlement Agreement on another. Further details on the files under investigation are included later in this update.

## Looking forward

The next EGR Committee meeting is scheduled for 16 June 2009.

## Peaking plants

Also at its most recent meeting, the Committee had an interesting discussion about whether the current rules governing offer and dispatch could potentially be a barrier to entry for peaking plants in the electricity market. During the discussion committee members noted that it is sometimes technically difficult to keep peaking plants ready for generation and generators sometimes incurred cost in doing so.

The Committee will report to the Board on this issue.

Market governance's advice to generators with peaking plants is once they have submitted an offer they need to be ready to respond to dispatch instructions. By closely monitoring forecast and pre-dispatch information, and assessing their own position against that pre-dispatch information, generators can appropriately prepare their plant for dispatch.

## Appointment of investigators

Investigators were appointed to the following 3 breach files:

- TrustPower Limited: self-reported and alleged breaches concerning the submission of incorrect reconciliation information relating to network supply point KAW0111 in October 2008 for the month 14 washup of August 2007. Details are available at:  
<http://www.electricitycommission.govt.nz/pdfs/rulesandregs/compliance/in-progress/invest-69.pdf>
- TrustPower Limited: self-reported breach concerning the seven month submission revision file provided to the Reconciliation Manager for August 2008. TrustPower used shape files it had produced itself for the Westpower network area rather than using the seasonal adjustment shape as published by the Reconciliation Manager. Details are available at:  
<http://www.electricitycommission.govt.nz/pdfs/rulesandregs/compliance/in-progress/invest-70.pdf>
- Genesis Power Limited: concerning the non-provision of duplicate protection to some of its assets and failure to report a breach related to quality and security in part C. Details are available at:  
<http://www.electricitycommission.govt.nz/pdfs/rulesandregs/compliance/in-progress/invest-71.pdf>

## Rule and Regulation change proposals

As mentioned in our introduction, the Commission has recently begun publishing the report the Committee receives on rule and regulation change proposals. The information that is available on each rule and regulation change that has been proposed is:

- a summary of the proposed change;
- the date the change was proposed, by whom;
- which Commission staff member is accountable for assessing the proposal, and whether the Commission Board or a committee of the Board is overseeing the work;
- what the status of the proposal is; and
- where available, other useful information about the progress of the proposal.

This report will be updated shortly after each Committee meeting.

## **Committee warning letters**

It is the Committee's practice to send warning letters to parties where for instance an alleged breach raises an important compliance issue, or has the potential to have a large impact on the market.

Warning letters are a reflection that the Committee sees a problem that needs attention, and wishes to engage directly with a party to see the problem resolved.

Some parties may have noticed that the Commission will address its warning letters to personnel in different levels of an organisation depending on its assessment of the seriousness of the problem. So for instance, the Committee will send a warning letter to the Chief Executive of an organisation when it wants to signal a serious problem, requiring a prompt response and the personal involvement of senior personnel is required. Letters to the Chief Executive are not sent without considerable thought. More commonly warning letters are addressed to other personnel to reflect the less serious, but still important, nature of the problem.

## **New requirement to disclose risk management contract information**

On 2 February 2009, new section VI of part G of the Electricity Governance Rules came into effect. Under the new rules parties must disclose, on the information system (provided by M-Co), information about risk management contracts that they are a party to.

The types of contracts that are governed by the new rules include contracts for differences, fixed-price physical supply contracts, and options contracts.

Market governance wishes to remind parties that this new obligation exists and the importance of complying with it.

The new disclosure rules are intended to:

- facilitate the comparison of electricity prices and other key terms of risk management contracts;
- address the lack of information available to people to formulate their own historic contract curves for electricity; and
- provide a more informed basis for people to assess the competitiveness of the market for risk management contracts in respect of electricity.

For more information on the details of the new obligations please see the extensive information on the Commission's website:

<http://www.electricitycommission.govt.nz/opdev/wholesale/rskmgmt/index.html>

Information on risk management contracts can be accessed on the information system via the website:

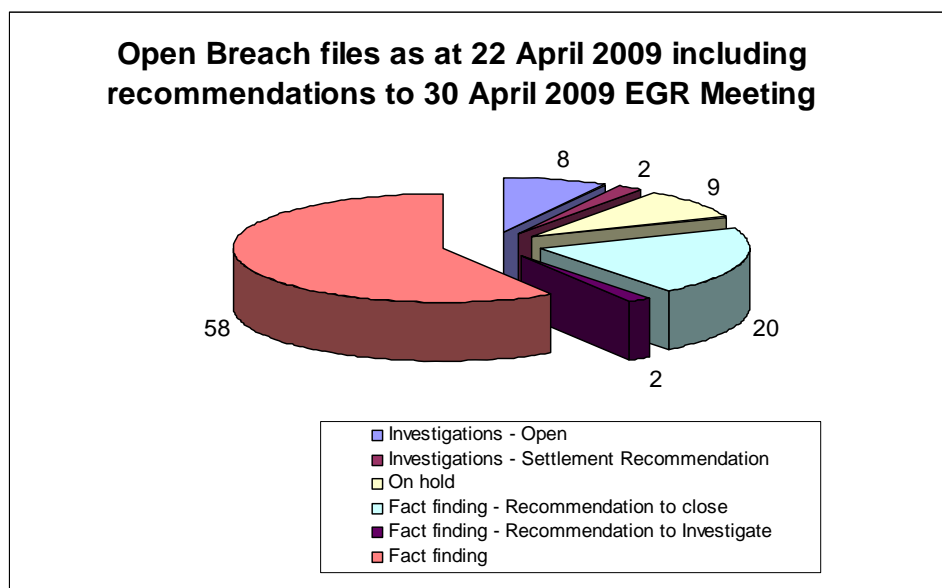
<http://www.electricitycontract.co.nz/>

## **Compliance Framework Review**

Submissions on the Commission's Compliance Framework review closed on Friday 15 May. We will keep you updated on where to from here.

## Open breach files

As at 22 April 2009 the market governance team had 99 open breach notification files. Progress on those breach files is summarised in the chart below.



## Statistics on the breaches considered in April

Rule breached	Self Reported	Action taken
<b>Part C</b>		
Clause 20.3 of Schedule C4	Y	Declined to pursue – 1 warning letter
Clause 22.3 of Schedule C4	Y	Declined to pursue
<b>Part D</b>		
Rule 6.4 of code of practice D3 of Schedule D1	Y	Declined to pursue – 1 warning
<b>Part E</b>		
Rule 4	N	Recommend Board approve settlement agreement
Rule 1 of Schedule E2	N	Recommend Board approve settlement agreement
Rule 1.2. of Schedule E2 (2 breaches)	Y	Declined to pursue
Rule 2 of Schedule E2	N	Recommend Board approve settlement agreement
Rule 2.2 of Schedule E2 (2 breaches)	Y	Declined to pursue
Rule 4.4 of Schedule E2	N	Recommend Board approve settlement agreement
Rule 4.5 of Schedule E2	N	Recommend Board approve settlement agreement
<b>Part G</b>		
Rule 3.4 of section II	N	Declined to pursue

Rule 4.9.3 of section III	Y	Declined to pursue
Rule 4.11 of section III (3 breaches)	N	Declined to pursue- 3 warnings
Rule 2.13 of section IV	Y	Declined to pursue
Rule 5.3 of section VI	N	Recommend Board approve settlement agreement
<b>Part J</b>		
Rule 1.2	Y	Investigator appointed
Rule 2.2	Y	Investigator appointed
Rule 3 (3 breaches)	Y	Declined to pursue
Rule 4.1.1	Y	Declined to pursue
Rule 4.2.2.2	Y	Declined to pursue
Rule 11.1	Y	Declined to pursue – 1 warning
Rule 5.6 of section II	Y	Declined to pursue
Rule 4.3 of section III	Y	Declined to pursue
Rule 52.2.1 of Schedule J3	Y	Investigator appointed
Rule 15.3 of Schedule J4	Y	Declined to pursue- 1 warning

## Contact us

If you would like to contact us please email the Market Governance team at [compliance@electricitycommission.govt.nz](mailto:compliance@electricitycommission.govt.nz) or contact

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