

# Market Governance Update

October 2009

## Compliance Conference 2009

The date for this year's compliance conference at Te Papa has been set; Monday 16 November from 9:30 to 4:00pm.

The Commission will address topics relevant to compliance with electricity governance regulation and rules.

The conference is for the benefit of all market participants, and we'd like to know what you want to hear about. At this stage we intend discussing the proposal to publish the EGR Committee's minutes, the soon to be released guidelines on reporting and self-reporting EGR breaches, compliance "hot" topics, and also to hold a rule change forum.

There is flexibility to tailor the agenda to topics and problems you want to discuss, so please email your suggestions to [compliance@electricitycommission.govt.nz](mailto:compliance@electricitycommission.govt.nz) or contact Chavdar Petkov, Peter Wakefield, or Alex Ehlert directly.

## Guidelines on reporting breaches of the Electricity Governance Rules

The EGR Committee will shortly consult on draft Guidelines on reporting breaches of the Electricity Governance Rules.

The Guidelines have been written in response to requests from participants who wanted further guidance on reporting breaches, particularly on the obligations to self-report, and what is meant by the requirement to report breaches of "rules relating to quality and security".

The Commission expects the Guidelines to be released in the next fortnight. Participants at the workshop on the Compliance Framework Review have provided comment on drafts of the Guidelines, and we are confident the final Guidelines will be a useful tool for participants.

Once approved the Guidelines will be available on the Commission's website.

## Open breach files

At this month's meeting the EGR Committee made decisions on 57 breach notifications. A summary of the decisions are in the table at the end of this update. After the meeting the Market Governance team had 62 open breach notifications files comprising 19 investigations in progress, 8 in hold and 35 in the fact finding stage.

### **Appointment of investigator to investigate breaches**

Peter Wakefield has been appointed to investigate the following breaches:

- Contact Energy (Contact): self-reported breaches concerning Contact not preparing historic estimates, with the exception of two Network Supply Points based on the relevant seasonal adjustment shapes.
- Reconciliation Manager: Contact considers that its breaches are an unintended consequence of the Reconciliation Manager publishing further partial seasonal adjustment shape files. The Rules expressly state that the Reconciliation Manager must not publish any further seasonal adjustment shapes for the consumption periods for which transitional revisions are required.

More details are available [here](#).

### **Retail audits - a new process for handling incidents identified**

At its meeting on 29 September 2009, the EGR Committee approved a new process for handling incidents of potential non-compliance that are found during Retail audits.

The purpose of the new process is to:

- ensure Retail Audits focus on monitoring remedial steps taken by participants to address previous breaches, and identify any problematic areas; and
- align with the Commission's compliance philosophy of seeking continuous improvement and ensure resources are allocated where they are most needed.

From now on, when auditors identify incidents of potential non-compliance during reconciliation audits, and audits of distributors and approved test houses, the incidents will continue to be reviewed by the Commission's retail team, but only those falling within the following criteria will be referred to Market Governance:

- the incident had more than a minimal actual or potential impact on the electricity market;
- or
- is part of a systemic problem or a deliberate intention to breach the Rules;
- or
- has not been resolved by the participant, or steps have not been taken to resolve it.

If an incident is referred to Market Governance, a decision will be made, using the Commission's Breach Assessment Criteria, whether to notify an alleged rule breach.

Where a breach is notified the Commission's Operating Procedures for processing alleged breaches of the Rules will apply.

The extent to which participants will need to self-report incidents identified during Retail audits will be covered in the draft Guidelines on reporting and self-reporting breaches of the Electricity Governance Rules which will be published for consultation shortly.

### **Consultation on publishing the EGR Committee's minutes**

This month the Committee approved for publication a consultation paper on publishing the EGR Committee's minutes.

Publishing the minutes was suggested as a way of providing greater transparency about the Committee's decisions and operations, and improving participants' understanding of the reasoning behind the Committee's decisions.

The paper points out that it will be necessary for participants to agree with the proposal before the Commission can publish the EGR Committee's minutes. This is because the Electricity Governance Regulations 2003 require the Commission to keep confidential all information provided to it in relation to alleged breaches.

The consultation paper is available on the [Commission's website](#). Submissions are due by 5 pm 13 November 2009.

### **Hedge Disclosure Rules**

The Committee considered the first breaches of the Rules that require disclosure of hedge contract information. The Rules, contained in section VI of Part G, require participants to disclose certain information about the hedge arrangements they have entered.

The breaches of the Rules occurred because participants failed to submit information within the required timeframes, and failed to understand that the Rules require options contract be disclosed.

This month the Market Governance team will publish a paper on the hedge disclosure requirements which will include tips for avoiding breaching these Rules.

### **Update on Commission's monitoring of February Otahuhu outage**

In our April and June updates we reported that the Commission is monitoring the events that lead to the outage at Otahuhu on 13 February 2009. In June the Committee had received advice from Transpower that the events of 13 February were the subject of an inquiry, and the Committee decided to wait for further information from Transpower (the Grid Owner).

The Committee has now been advised by the Grid Owner that it has reviewed the incident and does not intend to notify any rule breaches associated with the event. The Committee will consider this further at its November meeting.

The investigation of Contact Energy's failure to have correct protection settings in place at Otahuhu power station on 13 February 2009 is in progress.

### **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

Chavdar, Peter or Alex directly at:

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### **Next EGR Committee meeting**

The next EGR Committee meeting is scheduled for 10 November 2009.

Rule breached	Self-Reported	Action taken and reasoning given
<b>Part C</b>		
Rule 2.3.1 of section III	N	Declined to pursue – party now had a compliance plan which provides practical solutions to the non-compliance with this rule. The plan has been implemented, and subject to one outstanding issue which the party and the System Operator are working on, and Market Governance is monitoring, the implementation of the plan has been satisfactory.
Rule 2.5.1 of Technical Code A of Schedule C3	Y	Declined to pursue – party now has a compliance plan that provides a good working solution to the non-compliance with this rule. The plan has been implemented and the System Operator is satisfied with the implementation of the plan.
Rule 2.5.1 of Technical Code A of Schedule C3	N	Declined to pursue – party now had a compliance plan which provides practical solutions to the non-compliance with this rule. The plan has been implemented, and subject to one outstanding issue which the party and the System Operator are working on, and Market Governance is monitoring, the implementation of the plan has been satisfactory.
Rule 8.1 of Technical Code A of Schedule C3	N	Declined to pursue – party now had a compliance plan which provides practical solutions to the non-compliance with this rule. The plan has been implemented, and subject to one outstanding issue which the party and the System Operator are working on, and Market Governance is monitoring, the implementation of the plan has been satisfactory.
Rule 2.1 of Technical Code C of Schedule C3	Y	Declined to pursue – no market impact, staff have been reminded to follow protocols in the Rules for voice communications.
Clause 61 of Schedule C4	Y	Declined to pursue but sent a letter confirming non-compliance with the Rules and requesting notification when compliance is achieved or if the party intends to take any other actions open to it.
<b>Part D</b>		
Rule 3.2	Y	Declined to pursue – early closure.
<b>Part E</b>		
Rule 3	Y	Declined to pursue – early closure.
Rule 1.2 of Schedule E1	Y	Declined to pursue – early closure.
Rule 8.2 of Schedule E1	Y	Declined to pursue – early closure.
Rule 1.3 of Schedule E2	Y	Declined to pursue – early closure.
Rule 2.2 of Schedule E2 (three breaches)	Y	Declined to pursue – early closure.

Rule 4.3 of Schedule E2	Y	Declined to pursue – early closure.
<b>Part G</b>		
Rule 3.6.1 of section II (two breaches)	Y	Declined to pursue – no rule breach found.
Rule 3.7.2 of section II	Y	Declined to pursue – no rule breach found.
Rule 6.11 of section II	N	Declined to pursue – early closure.
Rule 3.5.13 of section III	Y	Declined to pursue. The error had minimal market, security or operational impact. Future errors of this type are prevented by the functions of the new market systems. Caused by human error.
Rule 4.11 of section III (two breaches)	Y	Declined to pursue – no rule breach found as the party was operating under block dispatch.
Rule 4.11 of section III	Y	Declined to pursue but issued warning letter. Although the breach had negligible impact its potential consequences were significant. This breach was caused by human error but a number of recent breaches of this rule at the same plant led the Committee to decide to send a warning letter to the Company's CEO.
Rule 4.11 of section III	N	Declined to pursue but sent a letter noting previous breach and reiterating the information contained in an earlier warning letter. The breach had negligible market and operational impact, but the number of times this party has breached this rule meant a warning letter was warranted.
Rule 3.3.2 of section V	Y	Declined to pursue – early closure.
Rule 3.6.1.1 of section V	Y	Declined to pursue – early closure.
Rule 2.1 of section VI (two breaches)	Y	Declined to pursue – early closure.
Rule 9.1.1 of section VI (two breaches)	Y	Declined to pursue – early closure.
Rule 1.3.1.3 of Schedule G6	Y	Declined to pursue but issued a warning letter. A breach caused by human error that had no market and no security impact. The Committee was concerned at the lack of check procedures which would have helped eliminate this error, and requested more timely checking of the inputs to prevent reoccurrence.
Rule 1.3.1.3 of Schedule G6	Y	Declined to pursue but issued a warning letter. The Committee considered that the breach highlighted a lack of checking. The breaches, although in existence from January until June, caused no market or operational impact. More vigorous tracking and checking processes are now in place.
Rule 1.3.2.4 of Schedule G6	N	
Rule 1.3.4.7 of Schedule G6	N	
Rule 1.3.4.6 of Schedule G6	Y	Declined to pursue but issued a warning letter. The breach was caused by human error, although clearer process requirements may have avoided the error so a warning letter was

Rule 1.3.4.7 of Schedule G6	Y	<p>warranted. The Committee was advised that the participant is working on new processes that will give more clarity around the changes required.</p> <p>Declined to pursue. A modelling error had no apparent impact and was promptly corrected. It should not recur as new systems have now been implemented.</p>
<b>Part J</b>		
Rule 3	Y	Declined to pursue – early closure.
Rule 4.1.1 (two breaches)	N	Declined to pursue – early closure.
Rule 4.1.2	Y	Declined to pursue – early closure.
Rule 4.2.2	N	Declined to pursue – early closure.
Rule 4.2.2.1 (two breaches)	N	Declined to pursue – early closure.
Rule 4.2.2.2	Y	Declined to pursue – early closure.
Rule 4.2.3	N	Declined to pursue – early closure.
Rule 11.4.9.2	N	Investigator appointed – breach caused another participant to breach that in turn affected a number of participants.
Rule 11.4.9.5	Y	Investigator appointed – breaches caused market impact and affected a number of participants.
Rule 2.2.1 of Schedule J2	Y	Investigator appointed – breaches caused market impact and affected a number of participants.
Rule 6.2 of Schedule J2	Y	Declined to pursue – early closure.