

MARKET GOVERNANCE UPDATE

October 2010

In this Market Governance update we will provide a summary of the most recent Electricity Governance Rules Committee decisions and breach file information. In this update we have focussed on:

- The hearing of a formal complaint to the Rulings Panel in relation to Meridian Energy Limited
- A case study on non compliance with the System Operator's requirements during asset testing

Formal Complaint to the Rulings Panel in relation to Meridian Energy Limited

On 27 August 2010, the Rulings Panel held a public hearing on a formal complaint laid against Meridian Energy Limited (Meridian).

Prior to the hearing, on 25 August 2010 the Rulings Panel was advised that the parties had reached settlement of all issues relating to the breach of rule 3.1 of part D which was alleged of Meridian by Vector Limited (Vector). Vector notified the Commission that it wished to withdraw its allegation in regards to that rule.

On 31 August 2010, the Board decided to withdraw the part of the formal complaint concerning rule 3.1 of part D.

The Board's initial decision to lay the formal complaint and subsequent decision to withdraw the part of the formal complaint concerning rule 3.1 of part D are found at:

<http://www.electricitycommission.govt.nz/rulesandregs/compliance/decisions#rulings>

Meridian admitted that it had breached all of the rules alleged by the Market Administrator. These breaches concerned rules in part E in relation to not registering as the retailer in respect of an ICP and rules in part J in relation to not providing the Reconciliation Manager with submission information.

The Rulings Panel was advised that parties were in the process of settling the issues of compensation for unaccounted for energy in respect of the part J breaches. The Rulings Panel adjourned the hearing on that matter pending advice from the parties that settlement has been reached.

The Rulings Panel reserved its decision on whether it should make an order of a civil pecuniary penalty in respect of the admitted breaches.

Case Study: Non compliance with the System Operator's requirements during asset test

On 12 April 2010, Meridian was conducting load rejection testing at Benmore Power Station to verify units' performance after implementation of some improvements as identified following the 1 August 2009 under-frequency event.

All the tests were conducted under a plan that had been discussed and approved in advance by the System Operator. One of the requirements of the plan was to minimise, at all times, any impact on the electricity system. It was agreed that prior to the drop of the load, the output from the other units would start ramping up to compensate for the drop of the output of the tested unit. This allowed for a minimal deviation of the frequency outside the normal regulation band 49.80 – 50.20 Hz. Accordingly, all tests held prior to the 13:15 test were performed with minimal impact to the electricity system frequency levels.

The 13:15 test was for a generation reduction of 90MW. The station operator who was involved in the previous tests was busy elsewhere and another operator took over for the 13:15 test. A disconnect eventuated in the understanding of the test procedure to be executed, specifically the need to start ramping up the other units before the tripping of the tested unit. This resulted in a delay occurring in increasing generation cover from the other Benmore units during the 13:15 test with the effect that the South Island frequency dropped to 49.25 Hz, and then overshot to 50.75 Hz.

An analysis of the tests concluded that tests, which were performed prior to 13:15, had been performed with minimal impact to the electricity system frequency. The 13:15 test occurred outside of the agreed standard operating process. All subsequent tests on 12 April 2010 resorted to the standard operating process with frequency quality appropriately managed.

Meridian self reported a breach of rule 2.7 of technical code A of schedule C3 of part C by failing to follow the agreed test procedure for the 13:15 test.

The Electricity Commission considered that the breach had no market impact but there was potential for a greater security impact as the frequency fell to a level close to triggering the instantaneous reserves. The electricity system frequency was around 49.99 Hz before the 13:15 test. System frequency fell to 49.25 Hz and then overshot to 50.75 Hz immediately after the 13:15 load rejection test was conducted. Meridian covered for the load as required by the approved test plan through increased generation from other units at the Benmore Power Station. However, the ramping up of the cover generation was inadvertently delayed (not optimal) for the 13:15 test, which resulted in the energy/frequency excursion. This was not in accordance with the test plan approved by the System Operator.

To prevent a reoccurrence of similar breaches, Meridian instigated an investigation of the event. Meridian has since implemented improvements to its internal processes for conducting testing of this nature, both in the method of execution and the override control protocols to ensure the quality of electricity frequency is managed to the expectations of the System Operator. All appropriate personnel have been reminded of both the need to strictly follow approved test plans and have been educated on the improved standard operating

process. All testing is now monitored and managed by Meridian's Generation Controller who normally has a better overall view of the electricity system parameters and all of Meridian's output.

Meridian has worked with the System Operator to ensure a clear understanding exists on the respective obligations of both organisations in relation to testing and commissioning, as well as the potential effects of asset testing on the electricity system security. All recent testing, including the execution of similar load rejection testing, has been positively managed by Meridian to the requirements and satisfaction of the System Operator.

New Service for Participants: Authority Compliance Investigation Database

Market Governance is developing a new database system that will be a web based application to allow participants to administer their breaches online. The design of the application will provide a valuable service for participants to view their breaches, each breach's history, the status of current breaches and reasons for the decision of a case in regards to each breach. It will also allow participants to submit responses to fact finding letters or queries, submit two hour rule revision reports, report breaches, create reports, and view and join investigations.

The project will be implemented during the Commission's transition to the new Electricity Authority. The development and planning will incorporate the requirements of the Electricity Industry Participation Code 2010 and the Electricity Industry Act 2010 which come into effect on 1 November 2010.

Use of agents in the electricity market

Recently, Market Governance received breaches concerning changes to bids and offers within two hours from an agent acting for a participant. The breaches were notified as breaches by the agent. Although the breaches of the rules were caused by the agent, they are still breaches by the principal and should be notified as such.

Participants are reminded to ensure such breaches are appropriately reported.

Key decisions at the 30 August, 10 and 27 September 2010 EGR meetings

- **Appointed an investigator** to investigate a self-reported breach by the System Operator of a principal performance obligation by failing to "act as a reasonable and prudent system operator with the objective of ensuring frequency time error is not greater than five seconds of New Zealand standard time".
- **Appointed an investigator** to investigate both self-reported and alleged breaches by the System Operator concerning the incorrect modeling of the HVDC resulting in a binding constraint and real time price separation between the North Island and South Island.

- **Appointed an investigator** to investigate the alleged breach of rule 6.1 of technical code B of schedule C3 of part C of the Rules by Transpower New Zealand Limited as the Grid Owner related to provision of AUFLS at Tiwai Point GXP.
- **Appointed an investigator** to investigate the breach of rule 2.7 of technical code A of schedule C3 of part C and the breach of rule 4.11 of section III of part G by Mighty River Power Limited related to commissioning of Nga Awa Purua geothermal plant.
- **Appointed an investigator** to investigate the alleged breaches of rules 3.1, 7.2, 8.3, 8.4, 8.6, 8.7 and 9.4 of part H by the Clearing Manager in relation to a delayed payment on 20 August 2010.
- **Recommended for approval** the settlement agreement on a reported breach of rule 3 of appendix A of technical code A of schedule C3 of part C by Genesis Energy Limited. The settlement agreement was approved by the Board on 31 August 2010.
- **Decided not to lay a formal complaint** in relation to a self reported breach of rule 4.11 of section III of part G by Meridian on 1 August 2009.
- **Decided not to lay a formal complaint** in relation to denied breaches of rules 3.2.1 and 5.2 of section II of part F and rule 8.2 of section III of part F by Transpower New Zealand Limited as the Grid Owner and Mighty River Power Limited.
- **Decided not to lay a formal complaint** in relation to an investigation of a self reported breach of rule 4.4.1.2 of technical code A of schedule C3 of part C and the alleged breach of rule 5.5.2 of section II of part G by Transpower New Zealand Limited as the Grid Owner.

More information about all investigations is available at the Electricity Commission website

<http://www.electricitycommission.govt.nz/rulesandregs/compliance/decisions2>

Summary of EGR Committee decisions on breach notifications at August and September 2010 meetings – excluding decisions to appoint an investigator.

Rule Breached	Self-reported	Action taken and reason given
Part C		
2.3.1 of section III	Y	The Committee declined to pursue but issued a warning letter. The participant failed to maintain pre-event output during an under-frequency event. Minimal impact although potentially could have caused greater security impact. Control logic modifications had not operated as expected and have now been disabled.
11.9 of section IV	Y	Three breaches – the Committee declined to pursue. Market impact resolved via wash-up and remedial action taken to improve processes.

Rule Breached	Self-reported	Action taken and reason given
2.7 of technical code A of schedule C3	Y	The Committee declined to pursue but issued a warning letter. Generator did not follow approved test plan for a drop load test. Frequency fell close to triggering an under frequency event. Remedial action taken included necessary process improvements and staff training. Committee recommended this event be used as a case study.
8.2 of technical code C of schedule C3	N	The Committee declined to pursue – early closure. Faulty equipment identified and promptly fixed.
22.5 of schedule C4	Y	The Committee declined to pursue but issued a warning. Remedial action included staff training and peer review improvement.
22.5 of schedule C4	Y	The Committee declined to pursue but issued a warning. The breach caused minimal market impact. Cause attributed to the complexity that involved a number of contingencies and the short implementation time. New system to be implemented by the System Operator to reduce complexity and risk.
32.2 of schedule C4	Y	The Committee declined to pursue but issued a warning. Reserves over procured by the System Operator for 5 trading periods due to installation of wrong version of Reserve Management Tool. A final peer review of the version for installation has been implemented as a compulsory check.
89.4 of schedule C4	Y	The dispatch schedule was not adjusted for a trading period to include the contingent risk when a circuit was removed from service. Steps had been taken to prevent recurrence. There was minimal market impact and no security impact although the breach had the potential for a serious security impact. The Committee declined to pursue but issued a warning letter as it expected processes in this area to be impeccable.
5.1.4 of technical code A of schedule C3	Y	The Committee declined to pursue on the basis that the notifying party had failed to establish a prima facie case for the alleged breach.
Part D		
3.1 of code of practice D3 of schedule D1	N	Declined to pursue on the basis that the notifying party had failed to establish a prima facie case for the alleged breach. The Committee noted that, although the retailer was responsible for the meter, on occasion other participants had the potential to place that retailer in breach by inadvertently tampering with the meter. However, there were no rules in place to breach the tampering participant. The Committee requested this issue be considered in the review of part D.
4.1 of code of practice D3 of schedule D1	Y	Declined to pursue – early closure.
4.8 of code of practice D3 of schedule D1	Y	Declined to pursue – early closure.

Rule Breached	Self-reported	Action taken and reason given
6.6 of code of practice D3 of schedule D1	Y	Declined to pursue – early closure.
7.2 of code of practice D3 of schedule D1	Y	Two separate breaches by different participants. Declined to pursue – early closure.
Part E		
3	Y	Two separate breaches by different participants. Declined to pursue – early closure.
5.3	Y	Two separate breaches by the same participant. Declined to pursue – early closure.
6	N	Declined to pursue – early closure.
6	Y	Declined to pursue – early closure.
8.2	N	Declined to pursue – early closure.
13	N	Declined to pursue – early closure.
17	Y	Declined to pursue – early closure.
2.2 of schedule E1	N	Declined to pursue – early closure.
2.3 of schedule E1	N	Declined to pursue – early closure.
4.3 of schedule E1	N	Declined to pursue – early closure.
4.5.2 of schedule E1	Y	Declined to pursue – early closure.
6 of schedule E1	N	Declined to pursue – early closure.
1.2 of schedule E2	Y	Declined to pursue – early closure.
1.3 of schedule E2	Y	Declined to pursue – early closure.
2.3 of schedule E2	Y	Declined to pursue – early closure.
2.7 of schedule E2	N	Declined to pursue – early closure.
4.3 of schedule E2	Y	Declined to pursue – early closure.
4.4 of schedule E2	Y	Declined to pursue – early closure.
Part G		
3.2 of section II	Y	Declined to pursue – early closure.
3.3 of section II	Y	Declined to pursue – early closure.
3.6.2 of section II	Y	When ownership codes were changed by the participant existing generation offers under the old code were not removed resulting in duplicate offers. The breach had minimal impact. The Committee declined to pursue but issued a warning letter. The Committee requested this breach to be included in a case study on commissioning.

Rule Breached	Self-reported	Action taken and reason given
3.14.3 of section II	Y	The emergency upload facility was in operation during an outage to COMIT. The participant incorrectly operated this upload facility resulting in offers not being uploaded. The breach had negligible impact. The Committee declined to pursue but issued a warning letter reminding the participant of the need to use back up systems. Familiarity with these systems needs to be kept updated in manuals and incorporated into staff training.
3.15.1 of section II	Y	Three breaches by 2 different participants caused by their agent– warnings issued due to incorrectly claimed bona fide revisions within 2 hours of trading periods when the reasons were human error.
3.17.1 of section II	Y	Declined to pursue but issued a warning letter. Revision within 30 minutes of trading period without a bona fide reason.
3.17.1 of section II	Y	Three breaches by 2 different participants caused by their agents– warnings issued due to incorrectly claimed bona fide revisions within 2 hours of trading periods when the reasons were human error.
3.17.1.2 of section II	Y	Declined to pursue – early closure.
3.19 of section II	Y	Declined to pursue – early closure.
6.3.3 of section II	Y	Participant did not revise its interruptible load offer when plant returned to normal levels. The participant has upgraded its alarm system to alert operators when offers depart from the actual interruptible load available. There was no market impact but the potential for a greater security impact. The Committee declined to pursue but issued a warning letter.
6.12A.1 of section II	Y	Three breaches by 2 different participants caused by their agent– warnings issued due to bona fide reasons given for revisions within 2 hours of trading periods when the reasons were human error.
6.12A.1 of section II	Y	Declined to pursue. Typo error of 1MW.
6.12A.1 of section II	Y	The participant advised its agent of bona fide changes. At the time the emergency upload facility was in operation during an outage to COMIT. The agent incorrectly operated this upload facility resulting in offers not being uploaded. The breach had negligible impact. The Committee declined to pursue but issued a warning letter reminding the participant of the need to use back up systems. Familiarity with these systems need to be kept updated in manuals and incorporated into staff training.
6.14.1.1 of section II	Y	Three breaches by 2 different participants caused by their agent– warnings issued due to bona fide reasons given for revisions within 2 hours of trading periods when the reasons were human error.
6.14.1.1 of section II	Y	Declined to pursue. Typo error of 1MW.

Rule Breached	Self-reported	Action taken and reason given
6.16 of section II	Y	Two breaches by 2 different participants caused by their agent. Decline to pursue – early closure.
3.7.2 of section III	Y	Delay of 19 minutes in commencement of publication of the 13:00 pre-dispatch schedule. The Committee declined to pursue.
3.8 of section III	Y	The Committee declined to pursue. Manual process of alignment of databases following stand alone dispatch the previous day, caused a delay in the System Operator providing information to the Pricing Manager and subsequent delay in the publishing of final prices. The manual process to be resolved by system fix in November 2010.
4.4.1 of section III	Y	A telephone conversation was considered to be a dispatch instruction for a generator to remain at 0MW. This instruction was issued in error. The breach had minimal impact and remedial action has been taken. The Committee declined to pursue and issued a warning.
4.9.3 of section III	Y	Declined to pursue – early closure.
4.9.3 of section III	Y	The operator was away from the control room when an instruction was received. The processes to alert the operator failed. The Committee declined to pursue and issued a warning letter stressing the importance of ensuring systems were fully functional and back up processes were operational.
4.9.3 of section III	Y	The GENCO sounder volume was set too low to be heard when a dispatch instruction was received. The Committee declined to pursue and issued a warning letter.
4.11 of section III	N	The Committee decline to pursue but warning issued. No market impact. There was some confusion due to the station and scheme having the same name. Proper communication protocols not followed by the participant. However, the proper protocol was emphasised to staff as remedial action to prevent recurrence.
4.11 of section III	Y	Six breaches by the same participant, two during control & instrumentation upgrades, one due to a disconnecter fault and failure of alarms, one due to an auto acknowledge band set too wide at +/- 10MW, and two while on manual dispatch due to modifications to GENCO. All breaches had minimal market impact. The Committee decline to pursue all breaches but issued warnings stressing the importance of having backup processes in place to prevent recurrence.
4.11 of section III	Y	Breach concerned the failure to provide sustained interruptible reserves during an under frequency event. A master relay did not perform due to the manual over ride “off” status having been enabled. In this instance the shortfall was 5.3MW with no impact. Remedial action was advised to the Committee. The Committee decided to decline to pursue and issue a warning

Rule Breached	Self-reported	Action taken and reason given
		stressing the importance of interruptible load performing for system security.
4.11 of section III	Y	<p>Breach concerned the failure to provide fast and sustained interruptible reserves, 0.3MW and 4.5MW respectively, during an under frequency event. The load group had been disarmed during relay testing.</p> <p>Overall the participant met dispatch requirements so this breach had no impact. The participant's system has since performed in accordance with requirements during drop load testing. The Committee decided to decline to pursue and issue a warning.</p>
4.11 of section III	Y	<p>This breach was caused after a control alarm for dispatch deviation was incorrectly interpreted. The Committee was advised that the breach caused minor market impact and the participant has implemented improvements to its control system. The Committee decided to decline to pursue and warned the participant to closely monitor its operational parameters and not to make assumptions about dispatch deviations.</p>
4.11 of section III	Y	<p>This breach was consequential to the breach of rule 2.3.1 of section III of part C, noted earlier (failed to maintain pre-event output during an under-frequency event.) Minimal impact in this instance although potentially there could have been greater security impact. Control logic modifications had not operated as expected and had now been disabled. The Committee declined to pursue and issued a warning letter.</p>
4.11 of section III	Y	<p>Operational staff did not expect the unit to be dispatched and therefore caused a delay in meeting the issued dispatch instruction. While the System Operator was advised of an initial delay, a further update was not provided of a continuing delay. There was no apparent market impact and staff had been reminded of the importance of meeting dispatch. The Committee declined to pursue and issued a warning letter.</p>
4.11 of section III	Y	<p>A station commenced generating too early after being advised that a circuit would be soon returned to service. The station had been previously dispatched to zero, and in this instance the generator to manage hydrology was under the incorrect understanding that it could generate under block dispatch. There was no market impact and steps were taken to prevent recurrence. The Committee declined to pursue and issued a warning letter.</p>

Rule Breached	Self-reported	Action taken and reason given
4.11 of section III	N	Breach concerned the failure to provide sustained interruptible reserves during an under frequency event. Although 3MW had been dispatched only 1.8MW was delivered. The participant had not properly assessed and adjusted its offers during testing. The participant refunded payments it received for reserves that were not available. Remedial steps had been taken to prevent recurrence. The Committee declined to pursue and issued a warning letter.
4.11.1 of section III	Y	A generator had plant difficulties resulting in slow ramping down. System Operator initially informed by the generator for the current trading period but was not informed of the ongoing circumstance affecting the next trading period. The Committee declined to pursue.
10.2 of section III	Y	There was a delay in publishing the pre dispatch schedule. The Committee declined to pursue on the basis that the notifying party had failed to establish a prima facie case for the alleged breach.
10.4 of section III	Y	Following the installation of a software release the SDQP failed to publish. Remedial measures to prevent recurrence, particularly in the testing of releases have been implemented. The Committee declined to pursue and issued a warning letter.
2.13 of section IV	Y	Offers at \$0 exceeded the must run dispatch auction rights allocated to the participant. Error caused by backup database error. No market impact and the software was corrected. The Committee declined to pursue.
3.2.3 of section V	Y	An embedded generator did not apply the published generation loss factor for files submitted to the Pricing Manager. System changes to pick up changes in loss factors have been implemented. The Committee declined to pursue.
3.11.1 of section V	Y	Declined to pursue – early closure.
9.1.1 of section VI	Y	The participant failed to submit electricity hedge disclosure information concerning 3 contracts within the required timeframes. Training was provided by the participant on responsibility & process for disclosure. The Committee declined to pursue.
1.3.2.4 of schedule G6	Y	A circuit that was already subject to an outage was wrongly selected and its outage start time revised, modelling the circuit back in service. There was no market impact. Staff had been reminded to check the correct screen ids being used and a system tool check enhancement had been requested. The Committee declined to pursue and issued a warning.
1.3.3.3 of schedule G6	Y	Erroneous load values were used in determining real time prices for approximately 19 minutes. Additional checks have been instituted by the System Operator as well as a system enhancement requested. The breach caused no impact. The Committee declined to pursue.

Rule Breached	Self-reported	Action taken and reason given
1.3.4.3 of schedule G6	Y	The expected profile of demand for the Moturoa GXP was not used by the System Operator in formulating dispatch schedules produced from 00:00 to 00:15 on 1 May 2010. A tentative date had been entered into the modelling system to remove Moturoa without subsequent checks. There was minimal market impact and remedial steps have been taken to prevent recurrence. The Committee declined to pursue and issued a warning.
1.3.4.7 of schedule G6	Y	Three breaches where new circuits were incorporated into the modelling system did not take account of existing outages. The breaches had minimal market impact and remedial action has been taken. The Committee declined to pursue and issued warnings.
1.3.4.7 of schedule G6	Y	Two breaches where assets for outage groups were not modelled correctly due to not following a process. The breaches caused negligible impact and a system enhancement is to be implemented to avoid the need for the process. The Committee declined to pursue and issued warnings.
1.3.4.7 of schedule G6	Y	When the HVDC Pole 1 was returned to service after an outage, the decommissioned half pole was not deactivated in the modelling system. The decommissioned half pole was included in two dispatch solutions. The breach caused negligible impact and was immediately corrected. The breach was considered to have been caused by human error. The Committee declined to pursue and issued a warning. The Committee also requested confirmation that the system change, planned for September 2010, to permanently deactivate the decommissioned half pole has occurred.
Part H		
3.14	N	A participant provided prudential security in cleared funds 19 minutes after the 16:00 deadline. There was no market impact and steps had been taken to prevent recurrence. The Committee declined to pursue and issued a warning.
3.15	N	The Committee declined to pursue on the basis that the notifying party had failed to establish a prima facie case for the alleged breach. This rule did not impose any obligations on a participant.
7.2.1	N	Automated process to pay in same day cleared funds had failed prior to deadline but participant not alerted to problem until after 14:00. Manual request then processed to enable payment. No market impact. This was the first breach of this rule by the participant. Declined to pursue – early closure.

Rule Breached	Self-reported	Action taken and reason given
7.2.1	N	The Committee decided to defer making a decision pending further information.
7.6.6	Y	Failure by the Clearing Manager to correctly set up hedge agreement resulted in incorrect invoices being issued. The error was corrected by wash-up and more process checks were instituted. The Committee declined to pursue.
8.2.7	Y	Failure by the Clearing Manager to correctly set up hedge agreement resulted in incorrect pro forma invoices being issued. The error was corrected by wash-up and more process checks were instituted. The Committee declined to pursue.
13.5	Y	Declined to pursue – early closure.
Part J		
1.2	Y	A half hour read ICP was incorrectly set up by the retailer to reconcile to zero. The market impact had been resolved within the 14-month wash-up and for two further months by way of agreement with affected participants. The retailer's processes and documentation has been improved. The Committee declined to pursue.
1.2	Y	A participant submitted incorrect information for profiled streetlights at two network supply points. The error is being resolved by wash-up. However, the error was material and undetected for a long period of time. The Committee declined to pursue, issued a warning, and sought assurance that all remedial process improvements have been implemented.
3.1	Y	Declined to pursue – early closure.
3.1	N	Declined to pursue – early closure.
4.2.2.1	N	Declined to pursue – early closure.
2.2.1 of schedule J3	Y	Declined to pursue – early closure.

Contact us

If you would like to contact us please email the Market Governance team at compliance@electricitycommission.govt.nz or contact Chavdar, Peter or Alex directly at:
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