

# Market Governance Update

September 2008

Welcome to our second update from the Electricity Commission's market governance team. We have lots to report about things that have happened since our last update in August.

On 25 August 2008 we held our second compliance conference at Te Papa. The participants found it very successful and said they really enjoyed the chance to meet and chat to other people working in similar roles. Further on in this update we give a quick rundown on the conference and the things we are doing as a result of the conference.

This update covers another EGR Committee meeting on 20 August 2008-just days before the second compliance conference and the release of our first market governance update.

We hope you find this update useful, and as always, if you have ideas on information you would like included please email us. Our address is at the end of this update.

## Second compliance conference

### Report from the Conference

More than 100 people attended the Commission's second compliance conference held on the 25 August 2008. The Conference began with a welcoming address from Commission Chair David Caygill who spoke about the maturity of the electricity market and the importance of complying with the Rules if the market is to operate efficiently.

Peter Harris, the EGR Committee Chair gave an overview of the Commission's compliance philosophy, followed by presentations from the market governance team on the outcomes of the compliance framework review and the Commission's compliance processes. Two presentations, on the Rulings Panel and the System Operator's compliance policy and practices were met with great interest. The agenda also included the traditional 'hot topics' workshop.

Feedback from attendees was that the content of the presentations was good, and almost everyone wanted to see another conference held in the future. Attendees identified the most useful information from the conference as:

- the Commission's compliance philosophy;
- the outcome of the compliance review; and
- the System Operator's presentation on internal compliance management.

### **Rule breach assessment work**

Between 1 August and 31 August 2008 the Commission received 11 notifications of alleged breaches of the Rules. The market governance team is busy assessing those notifications for the next Committee meeting.

### **Work underway on notifications**

At the conference we said that we prefer participants to notify us of all breaches of the Rules, regardless of whether they are required to report the breach or not. Our view is that all breaches should be notified as soon as possible.

If a participant identifies and reports all breaches, it helps give both the participant and the Commission the full picture of areas of possible improvement.

We are open to discussing with market participants any changes to the process of reporting breaches that would help all of us use our resources more efficiently.

We have work underway to identify whether and what changes are needed in this area.

## **New initiative as a result of conference: Compliance information tailored to participant groups**

The purpose of this conference was to give attendees an overview of the main areas affecting compliance; compliance philosophy and process. This meant that the topics at the conference were quite broad.

We picked some hot topics where we gave more specific information, but attendees said they would welcome more of that sort of information. Participants want compliance information that is tailored to their interest group e.g. retailers, wholesalers, distributors etc.

We understand that information which is relevant to some groups will often be not so relevant to others.

The Commission is giving some thought to how it can provide information about compliance that is tailored to participants' interests and needs. Two options that we have identified are providing, as part of a compliance event, specific information to the various interest groups; or weaving compliance information into events run by the Commission's other teams e.g. wholesale, retail, transmission or common quality.

Conference papers and handouts are now available on the Commission's website:

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

## **Report on the EGR Committee's August meeting**

### **Committee decisions**

At the EGR Committee meeting on 20 August 2008, the Committee considered and took action on 52 notifications, some of which involved breaches or alleged breaches of multiple Rules.

Investigators were appointed to investigate three alleged breaches:

- a self-reported breach of Rule 3.3.2.1 of section V of Part G by the Grid Owner;
- a self-reported breach of Rule 1.3.4.7 of schedule G6 of part G by the System Operator; and
- an alleged breach of various Rules in Part F by Mighty River Power and the Grid Owner.

Information on each of the investigations is available on the Commission's website:

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

## System Operator report to EGR Committee

Following the EGR Committee expressing some concerns about the System Operator's breaches of Rule 1.3.4.7, the System Operator offered to provide the Committee a presentation on:

- factors contributing to the breaches of Rule 1.3.4.7; and
- the System Operator's EGR compliance programme.

At its August meeting the System Operator gave a presentation to the Committee.

The Committee thanked the System Operator representatives for their presentation which it found very useful.

### Looking forward

The next EGR Committee meeting is scheduled for 1 October 2008.

## Contact us

If you would like to contact us please email us at [Compliance@electricitymission.govt.nz](mailto:Compliance@electricitymission.govt.nz)



Warning letters were sent to 16 breaching parties where the Committee declined to pursue the notification but the circumstances of the case warranted a warning.

The Committee declined to pursue 22 notifications but asked that compliance staff contact the parties involved and inform them that the Commission considers it important to complete corrective actions and to ask the parties to advise the Commission when the corrective actions had been taken.

Of the 52 breaches of the Rules, the most commonly breached Rule was Rule 4.11 of section III of part G.

We hope that our case study on compliance with dispatch instructions (Rule 4.11 of section III of part G) will help reduce the number of breaches of this Rule.

Following on from feedback received at the conference, the Commission will in future be providing more detail on specific breaches whilst protecting the confidentiality of information as necessary.

## Energy Intermarket Surveillance Group Meeting

In September, market governance staff attended a meeting of the Energy Intermarket Surveillance Group (EISG) hosted by the New York Independent System Operator.

The EISG provides a forum for the private exchange of market monitoring experiences and techniques, and develops common ideas on information requirements and market performance indicators.

The meeting was attended by 40 delegates mainly from the United States of America and Canada, with representation from Australia, South Korea, and the Philippines.

Discussions covered issues that forum participants faced including:

- retailer defaults requiring the transfer of customers to providers of last resort;
- an under frequency event when wind generation was forecast to increase but actually fell causing a shortfall of 1500 MW;
- an over frequency event caused by a generator not reducing generation when instructed to do so when load was falling, and
- penalties for non compliance including one penalty for abuse of market power of US\$171M.