

SETTLEMENT AGREEMENT

Regulation 24(1) Electricity Industry (Enforcement) Regulations 2010

DATED:

BETWEEN:

- (1) Meridian Energy Limited of 33 Customhouse Quay, Wellington (Meridian Energy);
- (2) Transpower New Zealand Limited as the system operator of 96 The Terrace, Wellington (system operator);
- (3) Genesis Energy Limited of 660 Great South Road, Greenlane, Auckland (Genesis Energy)

(Collectively the **parties**).

BACKGROUND:

- (A) On 24 June 2014, Meridian Energy reported to the Electricity Authority (Authority) that it had breached clause 13.97(2)(b) of the Electricity Industry Participation Code 2010 (Code) on 27 May 2014.
- (B) Clause 13.97(2)(b) of the Code prohibits ancillary service agents from reducing reserve offers when the system operator has declared a grid emergency unless a bona fide physical reason necessitates the reduction.
- (C) The Authority appointed an Investigator under regulation 12 of the Electricity Industry (Enforcement) Regulations 2010 (Regulations) to investigate the Alleged Breaches.
- (D) The system operator and Genesis Energy joined the investigation as interested participants.
- (E) The parties have agreed to settle the Alleged Breaches on the terms contained in this Agreement.

IT IS AGREED:

1. Interpretation

1.1 In this Agreement, unless the context requires otherwise:

- (a) **Agreement** means this Settlement Agreement:
- (b) **Alleged Breach** means the alleged breach of the Code arising from the Circumstances and described in clause 2:

- (c) **Approval Date** means the date the parties to this Agreement are notified that the Authority has approved this Agreement under regulation 24(4) of the Regulations:
- (d) **Circumstances** means the circumstances set out in clause 3:
- (e) **Regulations** means the Electricity Industry (Enforcement) Regulations 2010:
- (f) **Code** means the Electricity Industry Participation Code 2010.

2. **Alleged Breach**

- 2.1 At 07:39 on 27 May 2014, Meridian Energy, as an ancillary service agent, breached clause 13.97(2)(b) of the Code when it reduced the aggregate quantity of an instantaneous reserve offer during a grid emergency without having a bona fide physical reason for doing so.

3. **Circumstances of the Breach**

- 3.1 At 07:32 on 27 May 2014, the system operator declared a nationwide grid emergency for the period 07:30–09:30. The system operator then issued a grid emergency notice requesting participants to increase their energy and instantaneous reserve offers and not to exceed the current demand offtake levels. The notice also alerted the market to the possibility of load management.
- 3.2 Meridian Energy's generation controller and duty trader discussed the request set out in the grid emergency notice and, in particular, whether Meridian Energy could increase its instantaneous reserve offers. The generation controller advised the duty trader that Meridian Energy was not able to provide any additional instantaneous reserve because it had been unexpectedly dispatched to its highest energy offer at 07:26.
- 3.3 The duty trader misunderstood the generation controller's comment to mean that Meridian Energy could not meet its existing dispatched reserve of 39.3MW. At 07:39 the duty trader, based on this misunderstanding, telephoned the system operator "to bona fide the reserve offer to zero". That is, the duty trader advised the system operator that a bona fide physical reason existed that made it necessary to reduce Meridian Energy's instantaneous reserve offer to zero even though the system operator had declared a grid emergency. As a result, the system operator applied a manual constraint, and at 07:43 issued a dispatch instruction of zero reserves to Meridian Energy.
- 3.4 When Meridian Energy received the dispatch instruction for zero reserves, it realised its error. . Meridian Energy's instantaneous reserves remained armed and met its original dispatched instantaneous reserve offer of 39.3MW, even after being dispatched to zero reserves.

4. Impact of the Breach

- 4.1 The parties agreed that the market and security impact as assessed by the Investigator should be recorded as minimal, if any.

5. Steps taken to prevent recurrence

- 5.1 Meridian Energy has provided the personnel involved with further guidance and training on communication protocols, and the requirement to seek clarity and confirmation from resources and tools should there be any uncertainty.
- 5.2 All of Meridian Energy's traders have completed refresher training on trader obligations under a grid emergency.
- 5.3 Meridian Energy has developed a compliance training priority register to ensure training and refresher training is diarised.
- 5.4 Meridian Energy has documented communication protocols between its traders and generation controllers to formalise communication around bona fide offer revisions.

6. Guiding Principle

- 6.1 The parties agree the following guiding principle in relation to this Agreement:
- (a) participants must strictly follow grid emergency requirements and (at least) not make the situation worse.

7. Settlement

- 7.1 Meridian Energy agrees to:
- (a) ensure that all its traders are familiar with the Code obligations under a grid emergency by regularly completing refresher training
- (b) ensure that its traders and generation controllers are familiar with its communications protocols, especially for grid emergency situations
- (c) periodically review its communication protocols.

8. Confidentiality

- 8.1 If the Authority decides under regulation 25(2) of the Regulations not to publicise any part of this Agreement, each party will treat that part of the Agreement as confidential information and will not disclose it other than:
- (a) to the party's employees or contractors who need to know the confidential information to implement or monitor the implementation of this Agreement;
- (b) to the party's professional advisers, auditors, and bankers;

- (c) as required by law or for the purposes of judicial proceedings;
- (d) as required by any securities exchange or regulatory or governmental body to which the party is subject or submits; or
- (e) as authorised in writing by the other parties.

8.2 A party must not disclose confidential information under clause 8.1(a) or (b) unless the party obtains a confidentiality undertaking from the person to whom the confidential information is to be disclosed on terms no less onerous than those set out in this clause 8 before disclosing the confidential information. Any confidential information to be disclosed in the circumstances set out in clause 8.1(c) or (d) may only be disclosed after written notice to the other parties (unless the disclosing party is prevented from notifying the other parties by law).

9. Agreement Subject to Approval

- 9.1 Subject to clause 9.2, this Agreement will come into effect on the Approval Date.
- 9.2 Clause 8 is binding on the parties as from the date of this Agreement. Pending the Authority's approval of this Agreement under regulation 24(4)(a) of the Regulations, clause 8 will apply as if the Authority has decided under regulation 25(2) of the Regulations not to publicise any part of this Agreement or the existence of this Agreement.

10. Settled Breaches

- 10.1 This Agreement is in full and final settlement of all claims, actions, and demands against any party (under the Regulations, the Code, or otherwise) in relation to:
 - (a) the Alleged Breach; and
 - (b) any other breaches of the Regulations or Code involved in or arising from the Circumstances that the claiming party ought reasonably to have known about at the date of this Agreement,

(the Alleged Breach and such other breaches together the **Settled Breaches**).

Under regulation 24(4)(b) but subject to regulation 26 of the Regulations this Agreement is also binding on the Authority and all participants who are not a party to this Agreement to the effect that:

the Authority may not on its own initiative instigate a further breach investigation, or take any enforcement action in respect of, the Settled Breaches; and

a participant who is not a party to this Agreement may, subject to and in accordance with regulation 26 of the Regulations, make a further notification under regulation 7 or 8 of the Regulations in relation to a

Settled Breach, and the Authority may then take all or any of the steps provided for in the Regulations despite this Agreement.

11. General

- 11.1 Each party will execute all documents and do, or refrain from doing, all other reasonable things necessary or desirable to give full effect to the provisions of this Agreement, including to secure the Authority's approval of this Agreement under regulation 24(4)(a) of the Regulations.
- 11.2 This Agreement is the whole and only agreement between the parties relating to the settlement of claims, actions, and demands arising from the Circumstances. Each party acknowledges that it has not been induced to enter into this Agreement by any representation made by or on behalf of the other party that is not repeated in this Agreement.
- 11.3 This Agreement may be signed in any number of counterparts.

SIGNED:

For Meridian Energy Limited

Name:

Position:

SIGNED:

For Transpower New Zealand Limited

Name:

Position:

SIGNED:

For Genesis Energy Limited

Name:

Position: