

# SETTLEMENT AGREEMENT

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

### DATED:

### BETWEEN:

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

(Collectively the **parties**).

### BACKGROUND:

- (A) On 6 June 2014, the grid owner reported to the Electricity Authority (Authority) that it had breached clause 4(4)(b) of Technical Code A of Schedule 8.3 and clause 3 of Appendix A of Technical Code A of Schedule 8.3 of the Electricity Industry Participation Code 2010 (Code) since June 2007.
- (B) As the Code only came into force on 1 November 2010, the Authority also alleged breaches of the equivalent provisions in the Electricity Governance Rules 2003 (Rules) for the period from June 2007 until 1 November 2010.
- (C) Clause 4(4)(b) of Technical Code A of Schedule 8.3 and the equivalent provisions in the Rules requires asset owners to provide protection systems for its assets that are connected to, or form part of, the grid. Asset owners must also, as a minimum requirement, provide duplicated main protection systems for each of their assets at voltages of 220 kV a.c. or above.
- (D) Clause 3 of Appendix A, of Technical Code A, of Schedule 8.3 and the equivalent provision in the Rules specifies the requirements that the duplicate main protection systems required by clause 4(4)(b) must meet.
- (E) On 21 August 2014, the Authority appointed an investigator under regulation 12 of the Electricity Industry (Enforcement) Regulations 2010 (Regulations) to investigate the Alleged Breaches by the grid owner.
- (F) The system operator and Genesis Energy joined the investigation as interested participants.
- (G) 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 Breaches** means the alleged breaches of the Code and Rules 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; and
- (g) **Rules** means the Electricity Governance Rules 2004.

### **2. Alleged Breaches**

2.1 It was alleged that the grid owner breached:

- (a) clause 4(4)(b) of Technical Code A of Schedule 8.3 and clause 3 of Appendix A of Technical Code A of Schedule 8.3 of the Code from 1 November 2010; and
- (b) rule 4.4.2 of Technical Code A of Schedule C3 of Part C and rule 3 of Appendix A of Technical Code A of Schedule C3 of Part C of the Rules between June 2007 and 31 October 2010.

### **3. Circumstances of the Breaches**

3.1 The grid owner's equipment is located on Genesis Energy's site at Huntly.

3.2 In October 2013, during a maintenance shutdown at Huntly, Genesis Energy identified a possible problem with the duplicate protection for Huntly Unit 5 (HLY5). The grid owner and Genesis Energy had several discussions to identify the problem and how to remedy it.

3.3 In May 2014, following an investigation by the grid owner, it was confirmed that the grid owner's trip relay circuits (trip 1 and trip 2), component of the HLY5 cable connection differential protection for the 220 kV circuit breakers, were both using the same d.c. supplies. The cable connection differential protection is designed to operate for faults that occur between Huntly's 220 kV circuit breakers and the HLY5 generator transformer.

3.4 The grid owner advised this design has existed since HLY5 was commissioned in June 2007. The investigator notes the design for the grid owner's protection systems was completed in August 2005 while the duplicated main protection systems requirements were introduced by the Rules on 31 May 2007.

#### **4. Impact of the Breaches**

4.1 The impact of the grid owner's breaches is that if the single d.c. supply to the trip relay failed, the HLY5 220 kV circuit breakers would not open for operation of either HLY5's main 1 or main 2 cable connection differential protections as they should. This would mean the backup protection systems on the Huntly 220 kV connected transformers and the adjacent substation 220 kV circuits to Huntly would operate to isolate the complete Huntly 220 kV bus and disconnect further equipment.

#### **5. Steps taken to prevent recurrence**

5.1 The grid owner has processes in place to ensure new assets are designed, built, and maintained with duplicated main protection systems that meet Code requirements.

#### **6. Guiding Principles**

6.1 The parties agree the following guiding principles in relation to this Agreement:

- (a) protection systems are mandated in the Code to ensure reliable supply and avoid unnecessary costs to consumers by supply interruptions; and
- (b) the system operator relies on protection systems meeting Code requirements. Where protection systems do not meet Code requirements the system operator needs be advised immediately by the relevant asset owner so it can take measures to manage its principal performance obligations.

## **7. Settlement**

7.1 The grid owner agrees to:

- (a) proactively check protection designs to confirm duplicate power supplies and when maintenance and or modifications to protection systems are carried out;
- (b) confirm and agree with the system operator processes to notify the system operator of any situations where in-service protection is found not to meet Code requirements, by 30 September 2015;
- (c) undertake detailed design work to develop a solution that is acceptable to Genesis Energy, (now completed); and
- (d) engage and co-ordinate with Genesis Energy at an appropriate time to implement the agreed solution.

## **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) 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 Breaches; 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 Breaches and such other breaches together the **Settled Breaches**).

10.2 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:

- (a) 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
- (b) a participant who is not a party to this Agreement may, 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 Transpower New Zealand Limited as the

grid owner

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Name:

Position:

SIGNED:

For Transpower New Zealand Limited as the  
system operator

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Name:

Position:

SIGNED:

For Genesis Energy Limited

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