

SETTLEMENT AGREEMENT

(Regulation 83(1) Electricity Governance Regulations 2003)

DATED:

BETWEEN:

- (1) **Unison Networks Limited**, of 1101 Omaha Road, Hastings (**Unison**)
- (2) **Transpower New Zealand Limited**, of Level 7, 96 The Terrace, Wellington, in its capacity as System Operator (the **System Operator**);
- (3) **Meridian Energy Limited**, of 15 Allan St, Wellington (**Meridian**);
- (4) **Vector Limited**, of 101 Carlton Gore Road Newmarket Auckland, (**Vector**);
- (5) **Genesis Energy Limited**, of [602 Great South Road, Greenlane, Auckland, (**Genesis**);
and
- (6) **Norske Skog Tasman Limited**, of Fletcher Ave, Kawerau, (**Norske Skog**);

collectively the **parties**

BACKGROUND:

- (A) On 18 March 2005 the System Operator reported a potential breach of Rule 4.11, Part G of Section III by Unison in that it appeared that Unison had failed to comply with a dispatch instruction for sustained interruptible load during an under frequency event ('the alleged breach').
- (B) In accordance with regulation 69 of the Regulations, the board of the Electricity Commission (**Board**) appointed an investigator to investigate the Alleged Breach.
- (C) Meridian, Vector, Genesis and Norske Skog joined the investigation as interested participants.
- (D) The parties have agreed to settle the Alleged Breach 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) **Approval Date** means the date the Board approves this Agreement under regulation 84(2) of the Regulations;

- (c) **Alleged Breach** means the alleged breach of the Rules arising from the Circumstances and set out in clause 2.2;
- (d) **Circumstances** means the circumstances set out in clause 2.1;
- (e) **Regulations** means the Electricity Governance Regulations 2003;
- (f) **Rules** means the Electricity Governance Rules 2003;
- (g) all capitalised terms not defined in this Agreement have the same meanings as in the Regulations or Rules, as the case may be; and
- (h) all references to clauses are to clauses of this Agreement.

2. Circumstances and Alleged Breach

2.1 The parties agree on the following circumstances of the Alleged Breach:

- (a) At 11:08.28 hours on 23 December 2005, due to a tripping of the Otahuhu C Power Station, 366.9 MW of generation was lost from the New Zealand power system. As a consequence, the North Island system frequency dropped to 49.1 Hz before returning to the normal frequency range (49.8 to 50.2Hz) at 11:08.34 hours.
- (b) At 07:00.01 hours on 23 December 2005, Unison was issued a dispatch instruction for 4.7 MW of sustained instantaneous reserve (SIR). This was the last SIR instruction Unison received for reserve prior to the under frequency event at 11:08.28 on 23 December 2005.
- (c) During the event, the System Operator's analysis indicated Unison reduced load by the required amount before temporarily restoring tripped load at 11:17 hours. The restoration of reduced load occurred several minutes before Unison was instructed (11:24 hours) by the System Operator that tripped reserve load could be restored.
- (d) Unison has confirmed that it inadvertently restored interruptible load before advised by the System Operator. After identifying the error Unison responded by re-tripping the load. The load was incorrectly restored for approximately two minutes.
- (e) There was minimal market impact.

2.2 On 18 March 2005 the System Operator reported a potential breach of Rule 4.11, Part G of Section III by Unison in that it appeared that Unison had failed to comply with a dispatch instruction for sustained interruptible load during an under frequency event ("the alleged breach").

3. Guiding Principle

The parties agree the following guiding principle in relation to this Agreement that any actions the parties may be required to undertake in order to achieve a settlement should not require the parties to invest in significant additional resources to comply with the Agreement.

4. Settlement

Unison agrees to:

4.1 Update Operational Manuals and Onscreen Instructions

Unison acknowledges that their operational manuals and onscreen instructions, at the time of this event, included an instruction to the Unison operator to call the System Operator before restoring the sustained interruptible load (IL) but did not contain explicit instructions to the Unison operator to restore sustained IL only after receiving confirmation from the System Operator that it was appropriate to do so. Unison has agreed to update operational manuals and onscreen instructions by 29 September 2006 to make it an explicit requirement for Unison operators to restore sustained IL only after receiving confirmation from the System Operator that it is appropriate to do so.

4.2 Update Training Manuals

Unison acknowledges that its training manuals did not include explicit instruction to its operators to restore sustained IL only after receiving go-ahead from the system operator. Unison agrees to revise its training manuals to include an explicit requirement for operators to restore sustained IL only after receiving confirmation from the System Operator that it is appropriate to do so by 29 September 2006.

4.3 Training Programme

Unison acknowledges that its internal training program for the operators was not active for the 15 months prior to this event. Unison agrees to re-establish its operator training programme by 22 December 2006.

4.4 Notices

Unison acknowledges that instructional signage for operators could be improved and agrees to implement instructional signage improvements concerning signage on the panel with the frequency relays resetting button. The new sign will be clearly visible, will contain clear and unambiguous instructions for the operators, and will be installed by 31 October 2006.

4.5 Interlocks

Unison agrees to investigate the installation of interlocks on the load control equipment to prevent inadvertent switching of load. The conclusions of such investigation will be advised to the System Operator by 31 October 2006.

5. Agreement Subject to Approval

5.1 This Agreement takes effect on the date it is approved by the Board under regulation 84(2) of the Regulations.

6. Settled Breaches

6.1 Subject to the approval of the Commission under regulation 84(2)(a):

(a) The terms of this Agreement are a full and final settlement between the parties to this Agreement of all claims and liabilities under the Regulations and Rules of:

- (i) the Alleged Breach; and
- (ii) any other breaches of the Regulations and Rules, involved in or arising from the Circumstances

(together the “the Settled Breaches”)

- (b) In accordance with regulation 84, but subject to regulation 87, this Agreement is also binding on the Electricity Commission and all other Participants to the effect that:
 - (i) the Electricity Commission may not on its own initiative instigate a further rule breach investigation, or take any enforcement action, in respect of the Settled Breaches; but
 - (ii) a Participant who is not a party to this Agreement may, in accordance with regulation 87, make a further notification under regulation 62 or 63 in relation to a Settled Breach and the Electricity Commission may then take all or any of the steps provided for by Part 4 of the EGRs notwithstanding this Agreement.

7. General

- 7.1 Each party will execute all documents and do, or refrain from doing, all other things necessary or desirable to give full effect to the provisions of this Agreement, including to secure the Board’s approval of this Agreement under regulation 84(2) of the Regulations.

EXECUTED AS AN AGREEMENT:

For **Unison Networks Limited** by:

 Name:
 Position:

For **Transpower New Zealand Limited** by:

 Name:
 Position:

For **Meridian Energy Limited** by:

Name:

Position:

For **Vector Limited** by:

Name:

Position:

For **Genesis Energy Limited** by:

Name:

Position:

For **Norske Skog Tasman Limited** by:

Name:

Position: