

SETTLEMENT AGREEMENT

(Regulation 83(1) Electricity Governance Regulations 2003)

DATED: 20/6/2006

BETWEEN:

- (1) **Transpower New Zealand Limited** of Level 7, 96 The Terrace, Wellington, in its capacity as Grid Owner (the **Grid Owner**);
- (2) **Todd Energy Limited** of Level 15, The Todd Building, 95 Customhouse Quay, Wellington (**Todd**);
- (3) **Contact Energy Limited** of Level 1, Harbour City Tower, 29 Brandon Street, Wellington (**Contact**); and
- (4) **Meridian Energy Limited** of 15 Allen Street, Wellington (**Meridian**).

BACKGROUND:

- (A) The Grid Owner self-reported certain breaches of the EGRs under regulation 63 of the Regulations. The Board appointed an investigator to investigate the breaches under regulation 69 of the Regulations.
- (B) Todd, Contact and Meridian joined the investigation as affected parties under Regulation 75 of the Regulations.
- (C) The parties have agreed to settle the breaches on the terms of 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 Grid Owner is notified that the Board has approved this Agreement under regulation 84(2)(a) of the Regulations;
- (c) **Breaches** means the breaches of the EGRs arising from the Circumstances and set out in clause 2.2;
- (d) **Circumstances** means the circumstances set out in clause 2.1;
- (e) **EGRs** means the Electricity Governance Rules 2003;

- (f) **EMS** means Energy Market Services Limited, which is the Grid Owner's sub-contractor for certain of the Grid Owner's metering obligations under the EGRs;
- (g) **Regulations** means the Electricity Governance Regulations 2003;
- (h) all capitalised terms not defined in this Agreement have the same meanings as in the Regulations or EGRs, as the case may be; and
- (i) all references to clauses are to clauses of this Agreement.

2. Circumstances and Breaches

2.1 The parties agree on the following circumstances of the Breaches:

- (a) Two feeders, McFaddens 1 and McFaddens 2, are connected to the Papanui 66kV bus bars. Demand at the PAP0661 Grid Exit Point is the sum of the demand recorded by the Metering Installations at McFaddens 1 and McFaddens 2.
- (b) At the time, the Metering Installation at McFaddens 2 used the voltage signal from a voltage transformer known as VT1. McFaddens 2 did not have a voltage selection scheme to provide an alternative voltage signal if VT1 was unavailable.
- (c) On 4 December 2004, VT1 was disconnected to be relocated to a new incoming transmission line. After this disconnection, McFaddens 2 was returned to service without VT1.
- (d) There was no voltage signal to the Metering Installation at McFaddens 2 from 17:57 on 4 December 2004 to 15:05 on 6 December 2004 (when the Grid Owner, having detected the problem, restored the voltage signal by connecting an alternative voltage transformer to the Metering Installation at McFaddens 2). During this period the Metering Installation at McFaddens 2 recorded zero demand, causing the Half-Hour Metering Information for PAP0661 to be inaccurate.
- (e) The Grid Owner provided the inaccurate Half-Hour Metering Information for 4 and 5 December 2004 to the Pricing Manager without declaring a SCADA Situation (having not yet detected the loss of the voltage signal). The Grid Owner instructed EMS to apply a correction factor to the inaccurate Half-Hour Metering Information for the period from 00:00 to 15:30 on 6 December 2004.
- (f) The Grid Owner used SCADA data to correct the inaccurate Half-Hour Metering Information for the period from 18:00 on 4 December 2004 to 24:00 on 5 December 2004 for monthly billing and reconciliation.

2.2 The Grid Owner admits the following breaches of the EGRs for Trading Periods 37 to 48 on 4 December 2004 and all Trading Periods on 5 December 2004:

- (a) rule 3.3.2.2 of Section V of Part G of the EGRs by failing to provide initial estimates for unavailable Half-Hour Metering Information to the Pricing Manager for PAP0661; and
- (b) rule 3.5.1.2 of Section V of Part G of the EGRs by failing to specify in the notice required under rule 3.5.1.1 of Section V of Part G of the EGRs that the Input Information yielded a SCADA Situation.

3. Settlement

3.1 The Grid Owner agrees to take the following actions within five working days of the Approval Date to reduce the risk of recurrence of the Breaches:

- (a) install a voltage selection scheme for the Metering Installation at McFaddens 2 to provide an alternative voltage signal if the first voltage signal fails or is interrupted;
- (b) instigate a new total GXP trend report designed to smooth the effect of demand shifts at a Metering Installation level and provide more robust Half-Hour Metering Information validation techniques. The new trend report will compare data with the previous day and the same day of the previous week, and include a cross-check against SCADA data;
- (c) train relevant Grid Owner and EMS staff on the use of the new trend report; and
- (d) arrange for EMS to access Grid Owner plant outage data (PROMS) to create a daily list of sites where there is a potential for metering errors owing to maintenance activities.

4. Confidentiality

4.1 If the Board decides under regulation 85(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.

4.2 A party must not disclose confidential information under clause 4.1(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 4 before disclosing the confidential information.

Any confidential information to be disclosed in the circumstances set out in clause 4.1(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).

5. Agreement Subject to Approval

- 5.1 Subject to clause 5.2, this Agreement will not come into effect unless and until the Board approves it under regulation 84(2)(a) of the Regulations.
- 5.2 Clause 4 is binding on the parties as from the date of this Agreement. Pending the Board's approval of this Agreement under regulation 84(2)(a) of the Regulations, clause 4 will apply as if the Board has decided under regulation 85(2) of the Regulations not to publicise any part of this Agreement or the existence of this Agreement.

6. Settled Breaches

- 6.1 This Agreement is in full and final settlement of all claims, actions and demands against any party (under the Regulations, the EGRs or otherwise) in relation to:
- (a) the Breaches; and
 - (b) any other breaches of the Regulations or EGRs involved in or arising from the Circumstances that the other party ought reasonably to have known about at the Approval Date,
- (the Breaches and such other breaches together the **Settled Breaches**).
- 6.2 Pursuant to regulation 84(2), but subject to regulation 87 of the Regulations, this Agreement is also binding on the Board and all Participants who are not a party to this Agreement to the effect that:
- (a) the Board 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, subject to and in accordance with regulation 87 of the Regulations, make a further notification under regulation 62 or 63 of the Regulations in relation to a Settled Breach, and the Board may then take all or any of the steps provided for in Part 4 of the Regulations notwithstanding this Agreement.

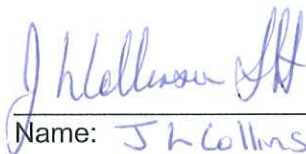
7. General

- 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)(a) of the Regulations.
- 7.2 This Agreement is the whole and only agreement between the parties relating to the settlement of claims, actions and demands arising from the Settled

Breaches. 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.

SIGNED:

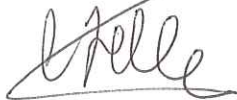
For **Transpower New Zealand Limited** in its capacity as **Grid Owner** by:



Name: J. H. Collinson-Smith

Position: Grid Compliance Manager.

For **Todd Energy Limited** by:



Name: Charles Teichert.

Position: Downstream Trading Manager

For **Contact Energy Limited** by:



Name: Carmen Blackie

Position: Manager, Electricity Markets

For **Meridian Energy Limited** by:



Name: GRANT SULLIVAN

Position: TRADING + PRODUCTION MANAGER