

## SETTLEMENT AGREEMENT

(Regulation 83(1) Electricity Governance Regulations 2003)

**DATED:**

**BETWEEN:**

- (1) **Transpower New Zealand Limited** of Level 7, 96 The Terrace, Wellington, in its capacity as Grid Owner (the **Grid Owner**); and
- (2) **Transpower New Zealand Limited** of Level 7, 96 The Terrace, Wellington, in its capacity as System Operator (the **System Operator**).

**BACKGROUND:**

- (A) The Grid Owner self-reported a certain breach of the EGRs under regulation 63 of the Regulations. The Board appointed an investigator to investigate the breach under regulation 69 of the Regulations.
- (B) The System Operator and Contact Energy Limited joined the investigation as interested Participants. The investigator subsequently accepted Contact Energy Limited's withdrawal as an interested Participant, leaving the Grid Owner and System Operator as the only remaining parties.
- (C) The System Operator recognises the potential conflict of interest in it being a party to a settlement that has resulted from a Grid Owner breach. Accordingly, the System Operator has adhered to its conflict of interest procedures set out in the Policy Statement in respect of the settlement.
- (D) The System Operator is confident that the Grid Owner has thoroughly investigated the breach and that an appropriate management response has been made. In addition, the System Operator believes that the proposed actions of the Grid Owner, as set out in this Agreement, will minimise the risk of the breach recurring and thus impacting on the System Operator's obligation to avoid cascade failure.
- (E) The parties have agreed to settle the breach 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) of the Regulations;

- (c) **Breach** means the breach 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) **Regulations** means the Electricity Governance Regulations 2003;
- (g) **Relevant Protection Systems** is defined in clause 2.1(c);
- (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 Breach

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

- (a) At 1212 hours on 10 January 2005 a yellow phase to ground fault occurred on the Stoke to Upper Takaka number 1 circuit (STK UTK 1).
- (b) When the fault occurred the protection system on STK UTK 1 operated correctly. That is, circuit breakers UTK 192 and STK 92 opened and the fault was cleared. However, the following circuit breakers also opened:
  - (i) STK 102 on the Cobb to Stoke number 2 circuit (COB STK 2); and
  - (ii) COB 72 on the Cobb to Upper Takaka number 1 circuit (COB UTK 1).
- (c) If the protection systems on COB STK 2 and COB UTK 1 (the **Relevant Protection Systems**) had been operating correctly, neither STK 102 nor COB 72 would have opened. These circuit breakers opened when the fault occurred because there was an inadvertent fault signalling cross-connection between STK 102 and COB 72.
- (d) The opening of STK 102 and COB 72 caused a loss of supply to the following Grid Exit Points for the following periods:
  - (i) Motupipi from 1212 hours to 1233 hours on 10 January 2005 (Trading Periods 25 and 26); and
  - (ii) Motueka from 1212 hours to 1239 hours on 10 January 2005 (Trading Periods 25 and 26), with a partial restoration of supply at 1230 hours.

In addition, generation at Cobb was restricted from 1212 hours to 1322 hours on 10 January 2005 (Trading Periods 25, 26 and 27).

- (e) If the Relevant Protection Systems had operated correctly, so that only STK UTK 1 was removed:
  - (i) part of the load at the Motueka Grid Exit Point would have been disconnected;
  - (ii) restrictions would have been applied on generation at Cobb; and
  - (iii) the time taken to restore STK UTK 1 would not have been substantially different.
- 2.2 The Grid Owner admits a breach of rule 4.4.1.2 of Technical Code A, Schedule C3 of Part C of the EGRs on 1 March 2004 by failing to commission the Relevant Protection Systems such that they operated selectively to ensure that the minimum amount of assets were disconnected.

### **3. Settlement**

- 3.1 The Grid Owner agrees to take the following actions to reduce the risk of recurrence of the Breach:
  - (a) before or as soon as reasonably practicable after the Approval Date, eliminate the fault signalling cross-connection between STK 102 and COB 72 and otherwise configure correctly the fault signalling in the Relevant Protection Systems;
  - (b) test the Relevant Protection Systems to ensure that fault signalling is operating correctly following the corrective action described in clause 3.1(a); and
  - (c) conduct ongoing testing and maintenance of the Relevant Protection Systems in accordance with the Grid Owner's service specifications.

### **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 4.1(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 4.1(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) 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) 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. Agreement binding on the Board and the Parties**

- 6.1 This Agreement is in full and final settlement of all claims between the parties under the Regulations with respect to:
- (a) the Breaches; together with
  - (b) any other breaches of the Regulations and ERGs, involved in or arising from the Circumstances (the Breaches and such other breaches together the "Settled Breaches");
- whether or not known about at the date of this Agreement.
- 6.2 Pursuant to Regulation 84, but subject to Regulation 87, this Settlement 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 EGRs breach investigation, or take any enforcement action in respect of, the Settled Breaches; but that
  - (b) a participant who is not a party to this Agreement may, subject to and in accordance with Regulation 87, make a further notification under Regulation 62 or 63 in relation to a Settled Breach and the Board may then take all or any of the steps provided for by Part 4 of the Regulations notwithstanding this Settlement.

## **7. General**

- 7.1 This Agreement is in full and final settlement of all claims, actions and demands as between the System Operator and the Grid Owner and only as between the System Operator and the Grid Owner in relation to the Circumstances and Breaches (or any of them).

- 7.2 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.
- 7.3 This Agreement is the whole and only agreement between the parties relating to the settlement of the 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:

Position:

For **Transpower New Zealand Limited** in its capacity as **System Operator** by:

\_\_\_\_\_  
Name:

Position: