

1. Terms of settlement dated the day of 2005, between:

- a. Transpower NZ Limited as System Operator;
- b. TrustPower Limited
- c. Genesis Power Limited;

2. In the matter of:

Two alleged breaches of the Electricity Governance Regulations (2003) and Rules (the EGRs) by the TrustPower Limited on 4th May 2004,

1. Alleged breach of Rule 4.11, Part G Section III with respect to the under-supply of interruptible load for under-frequency requirements in certain trading periods on those dates.

2. Alleged breach of Rule 6.3.3, Part G, Section II with respect to the reasonableness of the estimates provided to the system operator for the provision of interruptible load for the management of under-frequency events.

3. The guiding principles of this settlement are agreed between the parties as follows:

- a. The EGRs should facilitate the dispatch of interruptible load when there is a requirement to cover an under-frequency event, with the purpose of reducing the likelihood and extent of demand shedding or cascade failure of the system, as a consequence of an under-frequency event; and
- b. The providers of under-frequency reserves under the EGRs should provide reasonable estimates of available reserves and actual reserves in response to an event, in the manner and to the accuracy required in the EGRs, and
- c. Where the system operator has discretion regarding the interpretation of the EGRs account should be taken of the characteristics of the reserves being offered to the extent that the security of the system in responding to an under-frequency event is not compromised.

4. It is accepted by all parties to this agreement that:

- a. This informal resolution (settlement) is entered into by all parties pursuant to Regulation 82 of the EGRs.
- b. TrustPower has provided acknowledgement that it did breach the Rule 4.11 Part G section III as alleged.
- c. TrustPower does not accept that it was in breach of Rule 6.3.3 Part G section II and this settlement does not constitute acknowledgement by any party that the actions of TrustPower did or did not constitute a breach of Rules 6.3.3 Part G section II as alleged.
- d. There was negligible financial impact on Participants from the failure of TrustPower to meet its obligations under Rule 4.11, Part G Section III on 4th May 2004.
- e. Given the available information, it is not possible to determine the negligible financial impact on Participants from the failure of TrustPower to provide

reasonable estimates of reserve availability under Rule 6.3.3, Part G Section II on 4th May 2004.

- f. The quantity of interruptible load via ripple control of water heating systems delivered may, under some circumstances, be less than the quantity dispatched to the "reasonable" tolerances currently applied by the system operator.
- g. TrustPower has taken reasonable measures to ensure that its estimates of reserve availability and provision of reserves in response to an under-frequency event meet the system operators requirements in respect of the management of those events in accordance with the EGRs and the system operator's Principle Performance Objectives (PPOs)
- h. That TrustPower has provided its assurance that, if it wishes to continue to provide under-frequency reserves, it intends to continue development of its processes and equipment to ensure continuous improvement in its ability to estimate and provide reserves.

5. Accordingly, it is agreed that:

- a. If it wishes to provide under-frequency reserves in the future, TrustPower will continue to improve its processes, systems and equipment to provide improvements to the accuracy and reliability of its provision of under-frequency reserves. TrustPower and the system operator will continue to co-operate in the development of techniques to improve the accuracy of under-frequency reserve estimates.
- b. The System Operator will ask the Electricity Commission to consider inclusion of a review of Rule 6.3.3 Part G Section II, and its application, in the Commission's workplan.
- c. It is not appropriate for TrustPower to face a financial penalty for the alleged breaches on this occasion.

6. The parties urge the Electricity Commission, EGR Committee to accept this settlement and to endorse it further by recommending that the process for reviewing the rule change proposal, so far as it is able, be accorded the highest priority.

7. The parties to this agreement acknowledge the execution of this agreement constitutes full and final settlement between all the parties in respect of the alleged breaches of the EGRs set out in paragraph 2 of this agreement and all matters giving rise to the alleged breaches.

The settlement recorded in this Agreement will take effect on the date on which it is approved by the Electricity Commission under Regulation 84 of the EGRs.

Signed as an agreement.

Signed by and on behalf of

**TRANSPower NEW ZEALAND
LIMITED**

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Signed by and on behalf of
TRUSTPOWER LIMITED

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Signed by and on behalf of
GENESIS POWER LIMITED

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