

SETTLEMENT AGREEMENT

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

DATED:

BETWEEN:

- (1) Transpower New Zealand Limited as the system operator of 96 The Terrace, Wellington (system operator);
 - (2) Contact Energy Limited of 29 Brandon St, Wellington (Contact); and
 - (3) Meridian Energy Limited of 33 Customhouse Quay, Wellington (Meridian)
- (Collectively the **parties**).

BACKGROUND:

- (A) On 24 October 2014, the system operator reported to the Authority that it had breached clause 12(2)(c) of Schedule 13.3 of the Code from 07:06 to 08:21 on 11 September 2014. Meridian also alleged the system operator had breached this provision, although for a longer duration of 14:48 on 10 September 2014 to 08:23 on 11 September 2014.
- (B) The Authority alleged that the system operator also breached clauses 13.58(3A)(c) and 13.58(3B)(c) from 14:48 on 10 September 2014 to 08:23 on 11 September 2014.
- (C) Clause 12(2)(c) of Schedule 13.3 requires the system operator to calculate instantaneous reserves by identifying the risk associated with the largest contingent event.
- (D) Clause 13.58 requires the system operator to prepare the price-responsive and non-response schedules in accordance with Schedule 13.3.
- (E) On 19 December 2014, the Authority appointed an investigator under regulation 12 of the Electricity Industry (Enforcement) Regulations 2010 (Regulations), to investigate the Alleged Breaches by the system operator.
- (F) Contact joined the investigation as an affected participant.
- (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 arising from the Circumstances and described in clause 2;
- (c) **Approval Date** means the date the parties to this Agreement are notified that the Electricity Authority has approved this Agreement under regulation 24(4) of the Regulations;
- (d) **Circumstances** means the circumstances set out in clause 3;
- (e) **Code** means the Electricity Industry Participation Code 2010; and
- (f) **Regulations** means the Electricity Industry (Enforcement) Regulations 2010.

2. Alleged Breaches

2.1 It was alleged that the system operator had breached:

- (a) clause 12(2)(c) of Schedule 13.3 from 14:48 on 10 September 2014 to 08:23 on 11 September 2014; and
- (b) clauses 13.58(3A)(c) and 13.58(3B)(c) from 14:48 on 10 September 2014 to 08:23 on 11 September 2014.

3. Circumstances of the Breaches

- 3.1 At 11:45 on 10 September 2014, the grid owner cancelled an outage of Haywards filter 3A (HAY F3A) that had been planned to commence at 07:30 on 11 September 2014. The grid owner then notified the system operator of an outage of Haywards filter 3B (HAY F3B) planned for the same start time and date as the cancelled outage.
- 3.2 At 14:48 on 10 September 2014, the system operator entered the HAY F3B outage into the market system for 07:30 to 18:30 on 11 September 2014.
- 3.3 There would not have been any impact on the HVDC risk subtractor (528 MW) from the originally planned HAY F3A outage, and the system operator's staff mistakenly believed there would similarly be no impact from the HAY F3B outage.
- 3.4 At 07:06 on 11 September 2014, the system operator's security coordinator gave permission to the grid owner for the HAY F3B outage to proceed.
- 3.5 After the HAY F3B outage began, the system operator's energy coordinator identified that the HVDC risk subtractor was 528 MW when it should have been 140 MW. At 08:15, the system operator's security coordinator recalled

the outage. At 08:21, the system operator applied an override into the market system to set the HVDC risk subtractor to 140 MW.

- 3.6 At 08:32, the system operator changed the outage of HAY F3B to end at 09:00 on 11 September 2014.

4. Impact of the Breaches

- 4.1 The parties agreed that the market impact as assessed by the Investigator should be recorded as moderate.
- 4.2 The market impact of these breaches was that the system operator did not cater for the higher risk associated with the HAY F3B outage in the forward schedules. When the system operator updated the market system to correctly model the outage of HAY F3B, it caused price separation between the North and South Islands. Gate closure provisions in the Code prevented participants from reacting to the system operator's correction to the market system.
- 4.3 The security risk of these breaches arose because the system operator under-procured North Island reserves by 388 MW from 7:00 to 8:21 on 11 September 2014 creating a significant security risk during that period.

5. Steps taken to prevent recurrence

- 5.1 The system operator has held discussions with the grid owner concerning the grid owner's submission of short notice outage requests. The system operator is now involved with the grid owner's processes to ensure efficient and reliable coordination, and to mitigate scope for further error.
- 5.2 Through the Reserves and Frequency Management Project, which involve workshops, forums and working groups, the system operator has worked to inform the industry of the operation, functionality and developments regarding Pole 3 of the HVDC.
- 5.3 The system operator's internal trend analysis highlighted concerns regarding system operations involving new HVDC technology. The system operator consequently undertook further work to identify if any underlying causes or other potential issues exist.
- 5.4 The system operator developed and published its manual process concerning filter outages for use by its outage planners and coordinators.
- 5.5 The system operator initiated a Security Tools Project to automate the processes involved with the new HVDC technology. On 4 September 2015, the system operator completed testing and training for the security tools for the HVDC Controls Project. On 10 September 2015, the system operator deployed the HVDC Security Tools Project.

6. Guiding Principle

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

- (a) A competitive and efficient electricity market relies on participants being informed in advance of unforced network changes.

7. Settlement

7.1 The system operator agrees to:

- (a) through its 2015 Policy Statement review, consider changes to provide greater transparency and assurance to the industry; and
- (b) question the need for short notice outage requests if the urgency of a proposed outage is not apparent to the system operator.

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

Name:

Position:

SIGNED:

For Contact Energy Limited

Name:

Position:

SIGNED:

For Meridian Energy Limited

Name:

Position: