

Meeting Date: 25 February 2021

PAPER ON IMPARTIALITY,  
SEPARATION BETWEEN TRANSPOWER  
SERVICES

SECURITY  
AND  
RELIABILITY  
COUNCIL

This paper is a summary of the actions taken by the Authority and Transpower over the last three years to confirm and strengthen the independence and impartiality of the system operator within the wider Transpower business.

**Note:** This paper has been prepared for the purpose of Security and Reliability Council. Content should not be interpreted as representing the views or policy of the Electricity Authority.

## 1 Background and introduction

- 1.1.1 Over the last few years Transpower has sought to gain internal efficiencies through synergies across its business units.
- 1.1.2 After undertaking some organisational structural changes, Transpower made a presentation to the Authority's System Operations Committee on these changes. The Committee discussed the effect of these changes on the perception of the impartiality of the system operator within the wider Transpower Business.
- 1.1.3 Transpower worked with the Authority on scoping an independent consultant's report on the impartiality and conflict of interest processes of the system operator. This is the Advision report referred to in the paper.
- 1.1.4 The Advision report focussed mainly on operational policy and conflict of interest management. After this report was presented, the Authority still had some residual concerns, mainly around the principles of operation and governance of the system operator's independence and impartiality.
- 1.1.5 Transpower and the Authority agreed to engage an independent review to look at these concerns. It was agreed to engage Deloitte to perform this review, and the Authority and Transpower worked together to agree the scope of the review. This is the Deloitte review referred to in the paper.
- 1.1.6 Both the Advision and Deloitte reports made several recommendations. Transpower have completed all the actions resulting from these recommendations.
- 1.1.7 The Authority has been given full access to the reports, the report writers, and has been regularly updated while the actions were being progressed. The Authority is satisfied that the report's findings and the resultant actions have resolved any actual or perceived impartiality concerns and has agreed that it will allow time for the actions and changes implemented to bed in.

## 2 Impartiality and separation between Transpower services

- 2.1.1 Transpower's paper is well written and oriented to topics of organisational structure of Transpower's system operator and grid owner functions that have specific roles and obligations within the Act and the Code. These roles may at times provide conflicts of interest due to the way the New Zealand electricity market is structured, with a single system operator and multiple market participants, many of whom own generation and network assets.
- 2.1.2 The paper is not technical in an engineering sense and is well suited to frame discussions around the topic of impartial treatment of asset owners by the system operator (attached as Appendix A).

## Appendix A System operator impartiality



## SYSTEM OPERATOR IMPARTIALITY

# Summary of processes and reviews undertaken to strengthen system operator independence and role separation

### 1 Purpose

Transpower performs two key statutory functions. As grid owner, it owns and operates the national grid. As system operator, it is responsible for managing the real-time power system and operating the wholesale electricity market.

The purpose of this paper is to demonstrate how the system operator maintains its independence and role separation. Transpower takes role separation very seriously. Indeed, it is fundamental to continued confidence in Transpower's ability to operate both functions that effective policies and procedures are maintained to ensure the functions remain separate and any conflicts of interest are actively monitored and managed to mitigate and/or avoid any impact on role separation. This paper outlines the actions and steps the system operator has undertaken in recent years to strengthen its three lines of defence risk and assurance model to guard against the independence threats inherent in the system operator function. The system operator has coordinated and collaborated with the Electricity Authority (Authority) in undertaking and completing these actions and continues to manage its independence and report on its compliance obligations to the Authority's System Operator Committee.

### 2 Background and context

Under Section 8 of the Electricity Industry Act 2010, Transpower is the system operator. In some jurisdictions, the system operator role is independent from asset owners due to complexities related to managing multiple grid owners. However, international practice involves a range of structures, including vertically integrated, separate and a combination of both with internal separation. In the New Zealand context, there is a single national grid owned and operated by Transpower. Accordingly, Part 7 of the Electricity Industry Participation Code 2010 (Code) makes it clear that the system operator's role is distinct and separate from any other role or capacity that Transpower may have under the Code, including as grid owner<sup>1</sup>. This separation is critical for the independence and impartiality of the system operator in performing its role.

In 2018, Transpower underwent organisational change, as part of its T2 transformation programme, which resulted in bringing together its grid asset operations and grid outage planning teams into its system operations division, to form a new Operations division. This change was not designed or intended to alter or integrate the system operator and grid owner roles, but to create greater synergies between the two functions.

### 3 Advisian independent review

As part of the T2 transformation programme and to ensure the operational restructure did not impact role separation between the system operator and grid owner (including conflict of interest management), the system operator engaged the consultancy firm Advisian to perform an independent review of role separation and conflict of interest management.

The overall findings of the review were positive and Advisian's report noted that "*Transpower appears to have appropriate and effective measures in place to manage known existing potential conflicts and to identify and respond to potential new conflicts.*"

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<sup>1</sup> Part 7, Clause 7.10.

However, Advisian made 11 recommendations in its report for the system operator to *“improve processes, procedures and communications to ensure conflict of interest management remains effective as role integration progresses.”*

The system operator engaged an external contractor to progress the Advisian recommendations, which were subsequently completed and closed out. The table of Advisian recommendations and actions is attached to this Paper as Appendix 1. They generally focus on:

- The system operator’s Conflict of Interest Procedure (subsequently revised into a guideline) and Conflict of Interest Register, including actions to ensure accurate record keeping and practical implementation.
- External perceptions and communications, including role communication/capacity.
- Implementing the Outage Planning Policy.
- Audit of the grid event log.

All actions have been closed out and subsequent updates and revisions to the Conflict of Interest Procedure<sup>2</sup>, Register and other processes have enhanced the system operator’s management of separation and impartiality.

## 4 Deloitte audit

### 4.1 Scope

Notwithstanding the Advisian review, the Authority was concerned that the T2 organisational change to form the Operations division may have integrated core operational roles and eroded system operator independence and performance. Specifically, the Authority’s concerns were around the market risks and benefits of the change; the communication and consultation of the change; event management (especially in relation to the grid owner); and international industry practices where the system operators operate as separate legal entities (and whether such practices were applicable to the New Zealand environment).

Accordingly, in 2019, the system operator engaged Deloitte to conduct a review of the system operator’s independence, specifically in the context of the T2 organisational change. The scope of the review included:

- The impact of the T2 organisational changes on the system operator’s independence.
- Identifying the risks, challenges and opportunities (in principle) of having a fully independent system operator.
- The degree to which the system operator’s performance obligations (e.g. under the SOSPA) is impacted by the lack of corporate separation between the two roles.

In conducting its review, Deloitte focussed on four inherent independence threats to the system operator. These inherent independence threats had been identified by Transpower as potential risks in the performance of its dual roles and articulated by the system operator in the Policy Statement incorporated by reference into the Code. The inherent independence threats are:

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<sup>2</sup> The December 2020 revision of the system operator Conflict of Interest Procedure changed the description of the document to a Conflict of Interest Guideline.

- Procurement of ancillary services.
- Dispensation and equivalence arrangement decisions.
- Monitoring compliance of the grid owner with its Code obligations.
- Outage coordination<sup>3</sup>.

## 4.2 Findings

The findings set out in Deloitte's report focused on addressing the Authority's primary concerns and included:

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- The T2 organisational changes did not impact the system operator's independence. Deloitte noted that while the grid outage and planning teams sit under a new Operations division, the change did not result in an integration of roles, as there was sufficient segregation of incompatible duties through job descriptions, specific system operator policies and procedures, and physical separation of roles.

Deloitte found that although the communication of the change could have been better, it was communicated at CEO level and it was more the leadership and Board changes at the Authority that led to the nature, extent and impact of the T2 change becoming opaque.

- Event Management – the March 2017 AUFLS event was not dealt with in an appropriate and timely manner. Deloitte found that the system operator had subsequently strengthened its event management and investigation processes, including its interaction with the Authority.
- While system operator independence is achieved in some jurisdictions through separate individual entity structures, elements of this model exist within Transpower's system operator role. Deloitte found a comprehensive conflicts of interest policy, conflicts record-keeping and segregation of incompatible duties illustrates a commitment by Transpower to maintain system operator independence.

Deloitte noted that while there are risks and challenges in the current system operator model at Transpower, there are also several risks and challenges in a fully independent system operator model, including fragmented and less connected planning and higher operating costs.

## 4.3 Overview of recommendations

Notwithstanding the above findings, the Deloitte Report noted that Transpower could do more to demonstrate how it was addressing the system operator's inherent independence threats and made several recommendations around the three lines of defence risk and assurance model, namely to:

- Enhance the system operator governance arrangements.
- Strengthen and make visible (to the Authority and publicly) the current independence safeguards across the 1<sup>st</sup> line of defence (i.e. management controls and internal control measures).
- Formalise the 2<sup>nd</sup> line of defence (approach to compliance).
- Strengthen the 3<sup>rd</sup> line of defence (independent assurance/audit).

<sup>3</sup> The system operator identifies a 5<sup>th</sup> independence threat in its Conflict of Interest Guideline, namely managing confidential information about security of supply and emergency management.

A table of Deloitte recommendations and actions was a standing agenda item at the Authority's System Operator Committee meetings from 2019 until February 2021, when the final actions were completed. This table of Deloitte recommendations and actions is attached to this paper as Appendix 2.

Several of the Deloitte recommendations involved fundamental governance and structural changes that have been instrumental in strengthening the system operator's independence and these are covered in more depth below.

#### 4.4 Recommendation 1 – system operator governance

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Strong governance and accountability models enhance policy, strategy performance and risk management. These models can establish expectations over direction, performance, accountability and oversight. These models can also establish an appropriate escalation mechanism and timely resolution of issues. This ensures that external stakeholders are better assured of oversight mechanisms in place to achieve the system operator's core outcomes and the independence in which those outcomes are delivered.

The Deloitte report recommended the creation of a sub-committee to the Transpower board which has a focus on the role of the system operator, with responsibility for:

- Providing strategic direction to the system operator function.
- Approval of risk management and key policies and framework (including the event management policy/process) for the system operator.
- Appointment of auditors for system operator audits.
- Assessing the performance of the system operator (including against the SOSPA).
- Reporting to stakeholders and market participants on the system operator's performance.
- System operator breach investigations in a timely manner to the Authority.

##### 4.4.1 Transpower System Operator Committee

The Transpower System Operator Committee is a sub-committee of the Transpower Board and was established to address the governance recommendation in the Deloitte report. The Committee meets quarterly; its first meeting was in March 2020.

The Terms of Reference of the Committee includes the following functions:

- Reviewing the system operator service and its:
  - capability to deliver the service in accordance with the requirements of Code and SOSPA
  - strategic and business directions
  - conflict of interest and role separation procedures and practices
  - major event management
  - risk management approaches
  - project and strategic performance.
- Reviewing how the system operator service is delivered in a way that is independent from Transpower's role as grid owner.

- Reviewing Transpower's compliance with its statutory, contractual and Code obligations in relation to the system operator service and its ability to meet the needs of the New Zealand electricity industry.

The System Operator Committee delivers an enhanced governance model that ensures greater transparency over strategic decisions to provide the Authority and industry participants with greater confidence in the system operator's independence. The Committee also provides a more impartial escalation path for issues management. The GM Operations and SO Compliance & Impartiality Manager both have reporting obligations to the Committee, which act as direct escalation pathways for issues management.

The Authority System Operator Committee closed this action item (item 1A on the Deloitte Recommendations/Actions Table in Appendix 2 of this Paper) in March 2020, on the basis of the establishment of the Transpower System Operator Committee.

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#### 4.5 Recommendation 2 – 1st line of defense (independence safeguards)

Management is responsible for setting and executing strategies, providing direction and oversight and promoting a risk and compliance culture. The system operator has obligations to hold market participants to account for Code breaches, including the grid owner. Prescriptive policies and procedures provide consistency of practices, which results in the proactive management of inherent independence threats. Deloitte noted that while the system operator has addressed each of the identified inherent independence threats within its conflict of interest policy, there were some opportunities to improve some of the existing documentation to provide better certainty over safeguards.

Specifically, Deloitte recommended:

- Strengthening the monitoring of the grid owner breach process.
- Specifying in more detail certain elements of event management, namely roles and responsibilities, escalation pathways and communication protocols and the segregation of incompatible duties.

##### 4.5.1 System Operator Event Management Procedure

The system operator revised its Event Management Procedure and processes during Q1 and Q2 of the 2020/2021 year to address the Deloitte recommendations. The changes were presented to the Authority in January 2021, as part of the final actions to close out the Deloitte recommendations. The key changes to the event management process included:

- Clarifying roles and responsibilities.
- Documenting and implementing practical steps to ensure equality and impartiality in the participant breach process (e.g. as between the grid owner and all other participants).
- Implementing automated workflows for event investigators to trigger timely event resolution.
- Exception reporting to the Operations senior leadership team to hold their teams accountable for event resolution.

The Authority was comfortable to close out this outstanding action item (item 2A on the Deloitte Recommendations/Actions Table in Appendix 2 of this Paper), on the basis of the changes and improvements implemented, and this will be put forward as a recommendation at the next Authority System Operator Committee meeting.



## 4.6 Recommendation 3 – formalise the 2nd line of defense (compliance)

Risk management functions monitor the effective implementation of risk management practices. In particular, the compliance function checks and monitors specific risks and controls for compliance. The system operator compliance function provides management and the Authority with confidence that the 1<sup>st</sup> line of defence is appropriately designed and managed to safeguard against inherent independence threats.

Deloitte recommended that the system operator:

- Enhance the compliance function to include monitoring compliance across each of the inherent independence threats set out in the Deloitte report.
- Assess whether the compliance function had appropriate capacity to undertake such monitoring.
- Elevate the compliance function reporting line directly to the GM Operations.

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### 4.6.1 System Operator Compliance & Impartiality Manager

In December 2019 the system operator started a recruitment process for an SO Compliance & Impartiality Manager, being a Tier 3 management role reporting directly to the GM Operations. The SO Compliance & Impartiality Manager was recruited in April 2020 and started work in June 2020 following Transpower's return from the Covid lockdown.

The roles and responsibilities of the SO Compliance & Impartiality Manager include:

- Operating and improving the system operator compliance and impartiality frameworks.
- Monitoring and reporting on compliance with the Code.
- Monitoring and reporting on system operator role impartiality, particularly in relation to the inherent independence threats.
- Processing and reporting Code breaches to the Authority.
- Managing the Under-Frequency Event reporting process to the Authority.
- Managing and processing Code change applications.
- Management of the Policy Statement (incorporated by reference into the Code).
- Advising on Code compliance and impartiality.
- Contributing to the development of the Operations annual assurance programmes, including audit terms of reference and scope to ensure the system operator inherent independence threats are effectively managed.

The SO Compliance & Impartiality Manager also has leadership and stakeholder engagement responsibilities, including:

- Reporting to the Transpower and Authority System Operator Committees on system operator compliance and impartiality issues.
- Engaging with the industry to demonstrate how the system operator manages compliance and impartiality to build credibility and confidence in the function.
- Educating the Operations division on compliance and role impartiality expectations, processes and procedures.

## 4.6.2 Impartiality Framework - Policy Statement

The Policy Statement incorporated by reference into the Code sets out the system operator's high-level approach to managing potential conflicts of interest. It highlights five key functions identified by Transpower as potential risks in the performance of its dual roles, namely:

- Procurement of ancillary services.
- Causer determinations<sup>4</sup>.
- Dispensation and equivalence arrangement decisions.
- Outage coordination.
- Code compliance monitoring and reporting.

The Policy Statement requires the system operator to identify potential conflicts of interest and apply one or more methods set out in the Policy Statement to manage any conflicts. The purpose behind the Policy Statement is to ensure the system operator treats all participants in an even-handed way and applies the same processes and standards to the grid owner as to all other participants.

The Policy Statement also sets out the system operator's conflict of interest reporting obligation to the Electricity Authority.

The obligations on the system operator in the Policy Statement are developed in the revised Conflict of Interest Guideline, including conflict identification and materiality assessments, conflict management (in particular, in relation to the inherent independence threats), and reporting.

## 4.6.3 Impartiality Framework – Conflict of Interest Guideline

Since 2004, the system operator has implemented a conflict of interest procedure to provide guidance and processes to follow when a potential conflict arises, including recording, assessing and, if necessary, managing the conflict.

As part of the T2 organisational change in 2018, the system operator reviewed its Conflict of Interest procedure and processes to ensure they reflected the inherent independence threats in the context of the new Operations division. As a result of the review, the system operator completed several actions, including:

- Revising the Conflict of Interest procedure to ensure it reflected the inherent independence threats in the context of the new Operations division.
- Revising the system operator's on-line training modules to enhance awareness of potential conflict of interest situations (especially in relation to the new shared working environment at Transpower's Waikoukou office in Wellington). The conflict of interest training module forms part of induction training for all new employees and must be subsequently completed every two years.
- Communications to enhance staff awareness of role impartiality and conflict of interest.
- Engaging Advisian to perform an independent review of role separation and conflict of interest management (see separate section in this paper).

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<sup>4</sup> In practice, the system operator manages causer determinations as part of its Code compliance and monitoring functions (albeit with separate standalone procedures governing the investigation and reporting of Under-Frequency Events). Additionally, the system operator identifies a separate independence threat in its Conflict of Interest guideline, namely managing confidential information about security of supply and emergency management

In December 2020, the system operator revised the Conflict of Interest procedure into a Conflict of Interest guideline. The change from a procedure to a guideline has no impact, it simply reflects the nature of the document (i.e. a Transpower procedure generally has automated workflows) – it is still mandatory on all Transpower employees. The changes to the guideline were presented to the Authority in January 2021, as part of the final actions to close out the Deloitte recommendations. The key changes to the guideline included:

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- Specific focus on the system operator (the previous procedure applied to all potential conflict of interest situations at Transpower).
- Specific focus on the system operator inherent independence threats, including specific guidance on roles and responsibilities, management actions and other considerations related to the inherent independence threats.
- Clarification and elevation of roles and responsibilities, including:
  - The GM Operations having overall accountability for system operator conflict of interest management.
  - The system operator Compliance & Impartiality Manager having overall responsibility for the implementation of the guideline.
- Specific guidance on:
  - conflict of interest identification
  - assessing conflict of interest materiality (both quantitative and qualitative assessments)
  - conflict of interest management
  - conflict of interest reporting.

The Authority was comfortable to close out this outstanding action item (item 2B on the Deloitte Recommendations/Actions Table in Appendix 2 of this paper), on the basis of the changes and improvements implemented, and this will be put forward as a recommendation at the next Authority System Operator Committee meeting.

#### 4.6.4 Conflict of Interest Register

The system operator Compliance & Impartiality Manager is also responsible for maintaining the Conflict of Interest Register, which captures all system operator conflicts of interest (potential and actual, active and closed) and providing monthly reports to the Authority on:

- All active conflicts of interest, including the methods implemented to manage the conflicts.
- All system operator Code related self-breaches in the relevant reporting period.

#### 4.7 Recommendation 4 – Strengthen the 3rd line of defense (Assurance/Audit)

Independent assurance provides board and senior management with assurance over the effectiveness of governance, risk management, and internal controls (including the 1<sup>st</sup> and 2<sup>nd</sup> lines of defence). For the system operator, the establishment and maintenance of a schedule of Board approved operational audits provides for independent oversight across its 1<sup>st</sup> and 2<sup>nd</sup> lines of defence, in respect of independence conflicts, related risk issues and operational activity.

Deloitte recommended Transpower extend its internal assurance programme to include mandatory (cyclical) audits which address one (or more) of the system operator inherent independence threats.

#### 4.7.1 Business Assurance Audit Plan for 2020/2021

Transpower's Business Assurance Audit Plan for 2020/2021 was approved in July 2020. It includes a review of one of the system operator independence threats, the scope of which is to be determined in Q3 (February 2021). The audit is scheduled and budgeted for Q4 (April - June 2021).

The Authority System Operator Committee closed this action item (item 4A on the Deloitte Recommendations/Actions Table in Appendix 2 of this Paper) in September 2020, on the basis of the approved audit plan.

Additionally, as one of the 2020/2021 SOSPA funded business process audits, Deloitte will review the system operator event investigation and reporting processes, including the Event Management Procedure, to assess whether the processes are fit-for-purpose and applied effectively within the system operator role. The review will assess whether there are adequate steps in place to identify, manage, monitor, prevent and learn from defined events and identify potential improvements to the event investigation and reporting processes. The audit will be performed in February 2021.

## 5 Conclusion

Since 2018, the system operator has implemented significant organisational and policy changes to strengthen its three lines of defence risk and assurance model to guard against the system operator's inherent independence threats.

In particular, the Transpower System Operator Committee delivers an enhanced governance model to provide the Authority and industry participants with greater confidence in the system operator's independence. Similarly, elevating the system operator compliance function reporting line directly to the GM Operations and the creation of a Tier 2 management role to specifically monitor compliance across each of the independence threats demonstrates the importance the system operator places on role separation. The recent changes to the impartiality framework ensure potential conflicts of interest are actively monitored and managed to mitigate and/or avoid any impact on role separation. Transpower has also extended its annual internal audit programme to specifically address system operator inherent independence threats,

All the organisational and policy changes have been undertaken in collaboration with the Authority and the system operator continues to regularly engage with the Authority at both a management and Board level on system operator independence and the steps and actions the system operator has implemented to maintain role separation.

## Appendix 1: Advisian Recommendations/Actions Table

ID	Advisian Recommendation	Transpower Response / Action	Action Status	Comments.
1.	Revise the Conflict of Interest procedure for clarity and to ensure it aligns with actual practice.	Conflict of Interest procedure updated and expanded to provide greater clarity.	Complete	The Operations 5 known areas of potential COI to be extracted and incorporated into the COI procedure as specific independence threats.
2.	Consider undertaking an audit process for the grid event log. <i>(For the purpose of demonstrating the System Operator is unbiased in reporting potential Grid Owner breaches)</i>	Audit/review of the system operator breach identification process completed and shared with the Electricity Authority to improve understanding and manage perceptions.	Complete	Completed January 2019
3.	Establish a method or framework for external parties to identify and monitor conflict concerns	Web portal developed and implemented to allow external parties to identify and monitor conflict concerns.	Complete	Website contact established here: <a href="https://www.transpower.co.nz/contact">https://www.transpower.co.nz/contact</a>
4.	Include the process for reviewing the Conflict of Interest Register review in the procedures.	The COI procedure updated to include the process for ensuring the register is actively monitored and reviewed by the system operator.	Complete	Amalgamated with recommendation 1. Current system operator COI guideline requires the Compliance & Impartiality Manager to actively monitor the Register.
5.	Improve record keeping within the Conflict of Interest Register.	Templates developed and rolled out to aid in capturing and assessing conflicts of interest. This ensures a more consistent approach and level of information is recorded throughout the process, and available for review/audit.	Complete	Amalgamated with recommendation 3.
6.	Conduct regular internal conflict of Interest 'refreshers'.	COI procedure updated to reflect the associated online training module shall be completed by all staff once every two years, and as a required induction module for all new staff.  Training module updated to reflect changes associated with addressing these review recommendations.  Other methods of keeping the discussion live around conflict of interest will continue to be a focus.	Complete	Amalgamated with recommendation 1.

ID	Advisian Recommendation	Transpower Response / Action	Action Status	Comments.
7.	Complete, publish and implement the revised outage planning policy and principles.	Outage planning policy updated, including principles to address this recommendation.	Complete	
8.	Ensure cost allocations can be clearly identified and supported.	System Operator Avoidable Cost Allocation review process in place, with a review completed every 2-3 years. EY provide an assurance function around the process outputs.  Note SOSPA obligation around cost of service reporting.	Complete	
9.	Ensure that it is clear in which capacity / role communication with stakeholders is being undertaken, including the corporate support functions.	Identified the roles across Transpower where individuals were interacting or communicating as either "Transpower in our role as system operator", or "Transpower in our role as "grid owner". Guidance developed and rolled out around how individuals with dual roles can clarify in what capacity they are acting in when communicating with internal or external parties.	Complete	Legal services protocol developed and implemented in 2020 to manage situations where the system operator and grid owner require legal advice (including external counsel) in respect of the same matter. The protocol was developed to address the Electricity Authority's concerns arising out of the system operator's December 2018 UFE causer recommendation.
10.	Communicate the purpose for the role integration and the real time operations vision	We continue to look for opportunities to communicate the purpose for the real time operations vision, and the associated role integration.	Complete	This action is ongoing with initiatives such as Operations refresh and the 5+ year process of change happening across the control rooms
11.	Consider undertaking ongoing monitoring of stakeholders' perceptions of conflict of interest management as part of stakeholder surveys.	We continually update our stakeholder/customer surveys.	Complete	Conflict of interest / impartiality added to the 2018 survey. Impartiality questions to be revised in the 2021 survey to ensure they reflect the independence threats to the system operator role.

## Appendix 2: Deloitte Recommendations/Actions Table

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ID	Deloitte Recommendation	Update	Delivery Date	Status
1A	<p>The creation of a sub-committee (by Transpower) of the Transpower Board which has a focus on the role of the SO. The committee should have responsibility for:</p> <ul style="list-style-type: none"> <li>• Providing strategic direction to the SO function</li> <li>• Approval of the risk management and key policies and framework (including the event management policy/process) for the SO</li> <li>• Appointment of auditors for SO audits (which may be delegated to the SO Compliance function)</li> <li>• Assessing the performance of the SO (including assessment against the SOSPA)</li> <li>• Reporting to stakeholders and market participants on the SO performance (SOSPA will need to be amended to reflect this change in responsibility)</li> <li>• SO breach investigations are provided in a timely manner to the Authority</li> </ul>	<p><b>Owner: General Counsel and Company Secretary</b></p> <ul style="list-style-type: none"> <li>• TP SOC membership: Pip Dunphy, Dean Carroll (Chair), Richard Aitken, Sheridan Broadbent</li> </ul>	Mar 2020	Completed
2A	<p>Strengthen the following processes:</p> <ul style="list-style-type: none"> <li>• Monitoring of Grid breach process – specify the nature and extent of compliance checking and monitoring, including escalation mechanisms for grid breaches including roles, responsibilities and escalation pathways.</li> <li>• Event management – specify in more detail roles and responsibilities, escalation pathways and communication protocols (internally and externally) in regard to event management (from the SO point of view), this should include ensuring segregation of incompatible duties is maintained through the investigation process. These processes should be made visible with the Authority.</li> </ul>	<p><b>Owner: GM Operations</b></p> <ul style="list-style-type: none"> <li>• Revised Event Management Procedure and processes presented to EA in January 2021.</li> <li>• Revised Procedure to be audited by Deloitte in Q3.</li> </ul>	Jan 2021	Completed
2B	<p>Make visible to the Authority, current front-line policies and procedures (that safeguard inherent independence threats). Specifically, in the context of:</p> <ul style="list-style-type: none"> <li>• the procurement of ancillary services;</li> <li>• compliance assessment / alternative ancillary service arrangements / issue of dispensations and equivalence;</li> <li>• monitoring compliance of the transmission owner asset owner function; and,</li> <li>• outage co-ordination.</li> </ul> <p>The information to the Authority should articulate:</p> <ul style="list-style-type: none"> <li>• Policies in place to govern the specific process;</li> <li>• Decision rights including roles and responsibilities of the SO and grid function for each inherent independence threat; and</li> <li>• How conflicts of interest are managed in the context of each inherent independence threat (which is contained within the current SO/grid conflict of interest policy)</li> </ul>	<p><b>Owner: GM Operations</b></p> <ul style="list-style-type: none"> <li>• Revised COI Procedure and processes presented to EA in January 2021.</li> <li>• Business Assurance Annual Audit Plan for 2020/2021 approved in July 2020. Includes system operator inherent independence threats. Audit scope to be determined.</li> </ul>	Jan 2021	Completed
2D	<p>Position Descriptions – The Grid and System Operations Manager and Operations Planning position descriptions should be updated to reflect</p>	<p><b>Owner: GM Operations</b></p>	Dec 2020	Completed

ID	Deloitte Recommendation	Update	Delivery Date	Status
	decision rights for NCCS and NGOC given accountability for decisions under NGOC sit with the GM Grid Service delivery not the GM Operations. Position descriptions (PD'S) where appropriate within NGOC should be updated to reflect responsibilities in respect of managing inherent independence threats including an annual attestation for managing conflicts of interest.			
3A	<p>Transpower in its capacity as the SO should undertake the following actions:</p> <ul style="list-style-type: none"> <li>Enhance the current compliance function to include monitoring, this should include a specific emphasis on monitoring compliance across each of the inherent independence<sup>5</sup> threats outline within this report.</li> <li>Assess its current resourcing to establish if there is appropriate capacity in the current team to undertake a monitoring role</li> <li>Consider elevating the compliance function reporting line directly to the GM Operations (tier 2 manager)</li> </ul>	<b>Owner: GM Operations</b>	Mar 2020	Completed
4A	<p>Extend the current Transpower internal assurance programme to include mandatory (cyclical) audits which address one (or more) inherent independence threats.</p> <p>The scope (and outcome) of these audits should be consulted with and approved by the SO governing body.</p> <p>Additionally, reports should be made visible to the Authority</p>	<p><b>Owner: GM Operations / Chief Financial Officer</b></p> <ul style="list-style-type: none"> <li>Business Assurance Annual Audit Plan for 2020/2021 approved in July 2020. Includes system operator inherent independence threats. Audit scope to be determined.</li> </ul>	Sep 2020	Completed

<sup>5</sup> Inherent independence threats as noted in the Deloitte report, page 13, footnote 9: procurement of ancillary services; compliance assessment/alternative ancillary service arrangements/issue of dispensation and equivalence; monitoring compliance of the transmission asset owner function and outage co-ordination.