

## SETTLEMENT AGREEMENT

(Regulation 83(1) Electricity Governance Regulations 2003)

DATED: 30 September 2005

### BETWEEN:

- (1) **Transpower New Zealand Limited** of Level 7, 96 The Terrace, Wellington, in its capacity as Grid Owner (the **Grid Owner**); and
- (2) **Meridian Energy Limited** of Level 2, 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) 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 Transpower is notified that the Board has approved this Agreement under regulation 84(2) 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) During a planned outage, the Grid Owner released the 33kV bus bar at the New Plymouth GXP for planned maintenance on 3 June 2004 (between 0720 hours and 1515 hours) and 4 June 2004 (between 0725 hours and 1510 hours).
- (b) The voltage transformer and current transformers feeding revenue metering for the Moturoa GXP are located at the New Plymouth GXP, rather than the Moturoa GXP. The remote location of the metering is not typical across the Grid.
- (c) The release of the bus bar caused an unplanned loss of signal to the voltage transformer feeding revenue metering at the Moturoa GXP (VT43). As a result, no Half-Hour Metering Information was recorded for MRA0331 while the bus bar was out of service.
- (d) EMS, on behalf of the Grid Owner and being unaware of the missing data, provided the Half-Hour Metering Information for 3 and 4 June 2004 to the Pricing Manager without providing estimates for the missing data or notifying that the data was missing.
- (e) The Half-Hour Metering Information for 3 and 4 June was used for Final Prices for those Trading Days, but was corrected before reconciliation (by EMS, on behalf of the Grid Owner, providing Final Estimates for the missing data).

2.2 The Grid Owner admits the following breaches of the EGRs for Trading Periods 16 to 32 on both 3 and 4 June 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 MRA00331; 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 referred to in clause 2.2(a) yielded a SCADA Situation.

## **3. Settlement**

3.1 At all relevant times the Grid Owner had in place a services agreement with EMS under which EMS is obliged to check all raw meter data for missing data, verify the validity of any zero throughput levels after each interrogation of the meters, and provide initial estimates where metering data is not available. If those obligations had been fulfilled it is more likely than not that the Breaches would not have occurred.

3.2 The Grid Owner agrees to take the following actions to reduce the risk of recurrence of the Breaches:

- (a) before or as soon as reasonably practicable after the Approval Date inform all relevant staff (both within the Grid Owner and EMS) of the

Circumstances and the Breaches and that the Grid Owner has been investigated for the Breaches;

- (b) within 90 days of the Approval Date complete a review of the Grid Owner's and EMS' processes and systems for detecting, validating and estimating missing raw meter data, and agree improvements to those processes (which may include increasing the amount of staff time dedicated to detecting, validating and estimating missing raw meter data); and
- (c) notify Meridian and the Board of the improvements agreed between the Grid Owner and EMS; and
- (d) periodically conduct targeted reviews of EMS' detection, validation and estimation performance following outages that may interrupt the supply of raw meter data.

3.3 The Grid Owner also agrees to implement the following steps before or as soon as reasonably practicable after the Approval Date to reduce the potential for unplanned interruptions to metering at Moturoa:

- (a) add a note to the New Plymouth SCADA screen stating that the removal of VT43 causes a loss of all revenue metering for the Moturoa GXP;
- (b) advise the Regional Operating Centre of the requirement to keep VT43 in service as part of the responsibilities of the Regional Planners when undertaking detailed switching for outages;
- (c) update the Field Planners' station notes to incorporate the requirement;
- (d) update the maintenance contractor's station notes to incorporate the requirement, and make the maintenance contractor aware of the impact on metering at the Moturoa GXP of removing VT43;
- (e) place a caution notice on the relevant disconnectors warning that alternative revenue metering for the Moturoa GXP needs to be in place before removing VT43; and
- (f) confirm that the existing metering equipment at Moturoa is redundant, remove it and update the substation drawings.

#### **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 and EGRs with respect to:

- (a) the Breaches; together with
- (b) any other breaches of the Regulations and EGRs, 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 rule 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

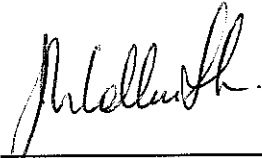
then take all or any of the steps provided for by Part 4 of the Regulations notwithstanding this Settlement.

**7. General**

- 7.1 This Agreement is in full and final settlement of all claims, actions and demands as between Meridian and the Grid Owner, and only as between Meridian 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:**

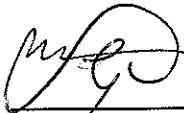
For Transpower New Zealand Limited in its capacity as Grid Owner by:



Name: J. H. Collinson-Smith.

Position: Asset Operations Manager.

For Meridian Energy Limited by:



Name: GRANT SULLIVAN

Position: TRADING + PRODUCTION MANAGER