

SETTLEMENT AGREEMENT

(Regulation 83(1) Electricity Governance Regulations 2003)

DATED:

BETWEEN:

- (1) **Meridian Energy Limited** (Meridian) of 15 Allen Street, Wellington;
- (2) **Transpower New Zealand Limited** of Level 7, 96 The Terrace, Wellington, in its capacity as System Operator (the **System Operator**); and
- (3) **Norske Skog Tasman Limited**, of Fletcher Avenue, Kawerau (**Norske Skog**),

Together "the parties"

BACKGROUND:

- (A) On 13 December 2005 Meridian notified the Electricity Commission (the **Commission**) pursuant to Regulation 63 of the Electricity Governance Regulations 2003 (the **Regulations**) of potential breaches of the Electricity Governance Rules 2003 (EGRs) by Meridian.
- (B) The Commission appointed an investigator to investigate potential EGR breaches under Regulation 69 of the Regulations.
- (C) The System Operator and Norske Skog joined the investigation as affected parties under Regulation 75 of the Regulations.
- (D) The parties have agreed to settle the admitted EGR breaches described in clause 3 below on the terms set out in this Agreement.

IT IS AGREED:

1. Interpretation

In this Agreement, unless the context requires otherwise:

- (a) "Agreement" means this Settlement Agreement;
- (b) "EGR breaches" mean the admitted EGR breaches described in clause 3 below;
- (c) "Approval Date" means the date the parties to this Agreement are notified that the Electricity Commission has approved this Agreement under regulation 84(2)(a) of the Regulations;
- (d) "EGRs" means the Electricity Governance Rules 2003;

- (e) "Regulations" means the Electricity Governance Regulations 2003;
- (f) All capitalised terms not defined in this Agreement have the same meaning as in the Regulations or EGRs, as the case may be; and
- (g) All references to clauses are to clauses of this Agreement.

2. Circumstances

The parties agree on the following circumstances for the admitted EGR breaches:

- (a) At 07:43 hours on 4 December 2005 the HVDC Pole 2 tripped leading to an Under Frequency Event in the South Island.
- (b) At the time of this event Meridian was an ancillary service provider of Fast Instantaneous Reserve (FIR) from the Waitaki River Block for eight stations including Benmore.
- (c) Meridian's dispatch for FIR was 54.8MW for the Waitaki River Block.
- (d) The Waitaki River Block did not provide the dispatched FIR quantity within 6 seconds as required.
- (e) At the time of the event Benmore generators G3 and G5 (designated to provide FIR) and were in tail water depressed (TWD) mode.
- (f) The two generators were connected to the grid through interconnecting transformers T2 and T5 at Benmore substation. The two transformers in some circumstances can not tolerate a steep increase of the output as they may trip on overload during frequency excursions. For this reason the under-frequency sensing for the Programmable Logic Controller (PLC) of the generators were set to start when the frequency reached 47 Hz instead of the standard setting of 49.25Hz.
- (g) The setting of 47Hz was done to ensure that Benmore generation and HVDC frequency influence was not removed from the grid at the time of an under frequency event.
- (h) In responding to the Under Frequency Event generators G3 and G5 were reverted from TWD to generation mode manually by the Meridian Generation Controller on duty about four minutes and fifteen seconds and 1 minute and five seconds respectively after the start of the Under Frequency Event.
- (i) The frequency in the South Island fell to around 47.9 Hz before recovering.

3. Admitted EGR breaches

Meridian self reported and admitted two EGR breaches arising from the circumstances set in clause 2 above. They are:

An admitted breach of Rule 6.3.3 of Section II of Part G of the Electricity Governance Rules 2003 in that at about 07.43 hours on 4 December 2005 Meridian, as an ancillary service agent, failed to provide a reasonable estimate of the quantity of instantaneous reserve available from Meridian for the Waitaki Block; and

An admitted breach of Rule 4.11 of Section III of Part G of the Electricity Governance Rules 2003 in that at about 07.43 hours on 4 December 2005 Meridian, as an ancillary service agent, failed to comply with a dispatch instruction for the Waitaki Block.

4. Settlement

The parties agree:

- (a) That Meridian ceases offering TWD FIR from Benmore Station until such stage as the TWD FIR is verified by testing to be available.
- (b) Meridian's methodology for taking into consideration the difference between individual asset capability and station capability to ensure Meridian can physically deliver what is dispatched by the System Operator is to be shared by Meridian as part of the System Operator's South Island Review Project.

5. Confidentiality

5.1 If the Commission 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.

5.2 A party must not disclose confidential information under clause 5 (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 5 before disclosing the confidential information. Any confidential information to be disclosed in the circumstances set out in clause 5 (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).

6. Agreement Subject to Approval

6.1 Subject to clause 6.2, this Agreement will come into effect on the Approval Date.

6.2 Clause 5 is binding on the parties as from the date of this Agreement. Pending the Electricity Commission's approval of this Agreement under regulation 84(2) (a) of the Regulations, clause 5 will apply as if the Electricity

Commission has decided under regulation 85(2) of the Regulations not to publicise any part of this Agreement or the existence of this Agreement.

7. Settled Potential EGR Breaches

7.1 This Agreement is in full and final settlement of all claims, actions and demands against any party under the Regulations the EGRs or any other relevant law in relation to:

- (a) The admitted EGR breaches; and
- (b) Any other breaches or potential breaches of the Regulations or EGRs involved in or arising from the circumstances of the admitted EGR breaches that the claiming party ought reasonably to have known about at the date of this Agreement,

7.2 Pursuant to regulation 84, but subject to regulation 87 of the Regulations, this Agreement is also binding on the Commission and all Participants who are not a party to this Agreement to the effect that:

- (a) The Commission may not on its own initiative investigate a further breach investigation, or take any enforcement action in respect of, the admitted EGR breaches; and
- (b) A Participant who is not a party to this Agreement may, subject to and in accordance with regulation 87 of the Regulations, make a further notification under regulation 62 or 63 of the Regulations in relation to this Agreement and the Commission may then take all or any of the steps provided for in Part 4 of the Regulations notwithstanding this Agreement.

8. General

8.1 Each party will execute all documents and do, or refrain from doing such reasonable things necessary or desirable to give full effect to the provisions of this Agreement, including to secure the Commission's approval of this Agreement under regulation 84(2)(a) of the Regulations.

8.2 This Agreement is the whole and only Agreement between the parties relating to the settlement of claims, actions and demands arising from the admitted EGR breaches referred to in clause 3. Each party acknowledges that it has not been induced to enter into this Agreement by any representation made by or on behalf of another party that is not repeated in this Agreement.

8.3 This Agreement may be signed in any number of counterparts.

For Meridian Energy Limited by:

Name:

Position:

For Transpower New Zealand Limited as System Operator by:

Name:

Position:

For Norske Skog Tasman Limited by:

Name:

Position: