

## **Notification of the Authority's Decision under regulation 29 of the Electricity Industry (Enforcement) Regulations 2010**

Under regulation 29(1) of the Electricity Industry (Enforcement) Regulations 2010 (Regulations), the Electricity Authority (Authority) must publicise every decision made under regulation 23(3) together with the reasons for the Authority's decision.

### **Investigation**

On 9 February 2011, the Authority appointed an investigator under regulation 12 of the Electricity Industry (Enforcement) Regulations 2010 to investigate the alleged breach of clause 33.1 of the Policy Statement) by Transpower New Zealand Limited as the System Operator. The breach was alleged by Norske Skog Tasman Limited because the System Operator did not dispatch remaining offered reserves following an under-frequency event on 11 November 2010.

Genesis Power Limited, Contact Energy Limited, TrustPower Limited, Pan Pac Forest Products Limited and New Zealand Steel Limited joined the investigation as affected parties.

A settlement could not be achieved, the System Operator did not agree to the settlement requirements of Norske Skog Tasman Limited and Pan Pac Forest Products Limited that the System Operator dispatched remaining offered instantaneous reserves after an under-frequency event.

On 26 May 2011, the Authority received and considered a report and a recommendation from the investigator to discontinue the investigation.

The investigator reported that clause 33.1 had been changed to its current form to align the Policy Statement with software changes to partially dispatch the reserve requirement when there was a shortage of energy and reserves. At the time the software changes were implemented, the System Operator issued a customer advice notice to the market advising and explaining the change. That notice also included the process of setting the reserve requirement to zero after an under-frequency event.

### **The Authority's decision**

On 26 May 2011, the Authority decided under regulation 23(3)(a) to discontinue the investigation.

### **Reasons for the Authority's decision**

The reasons for the Authority's decision to discontinue the investigation were that:

- despite different interpretations on the application of this clause the System Operator did not breach the intent behind this clause in the Policy Statement.

As well as making its decision to discontinue the investigation, the Authority recommended that:

- the relevant clauses in the Policy Statement be amended to avoid misinterpretation and to include the actions the System Operator will take immediately following an under-frequency event.

The Authority also noted that:

- the practice of suspending the reserves market immediately following an under-frequency event has a potentially serious security impact and sends the wrong pricing signals to participants. The issue was identified in 2004, consulted on in 2006 but still remains to be resolved; and
- the Authority's Scarcity Pricing project is monitoring the outcome of this investigation to determine implications for the design of scarcity pricing arrangements for instantaneous reserve shortfalls immediately following a contingent event.