Settlement Residue Payments Methodology

Effective from 1 April 2023

Document Control

Responsibility	Name	Position
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Approval and Revision History

Version	Date	Revision Notes
1.0	20/6/2023	Initial Document

1.   Purpose

In November 2022, the Electricity Authority amended the Electricity Industry Participation Code 2010 (the Code) by inserting clause 12A.3 into the Default Distributor Agreements (the DDA). The purpose of the clause is to require distributors to allocate the settlement residue paid by Transpower in proportion to the transmission charges at each connection location.

The Code amendment requires distributors to pass through residual settlement rebates received from Transpower to their customers each month. Distributors must also develop and publish a methodology outlining the approach it has used to allocate the settlement residue to their customers that gives effect to the purpose of clause 12A.3.

This document is our Settlement Residue Payment Methodology as prescribed by clauses 12.A3(3) and 12.A3(4) of the DDA. The methodology is effective 1 April 2023, rendering Transpower's existing method for allocating settlement residue (previously called loss and constraint excess) obsolete.

2.   Background

When determining the Settlement Residual allocation Methodology (SRAM)[1] to apply under the new Transmission Pricing Methodology (TPM), the Authority chose to use the "Simple BB" method, requiring Transpower to allocate settlement residue to its customers. To ensure that distributors passed the residual settlement rebates to their customers, the Authority mandated a "limited pass-through" approach but did not prescribe the method distributors must use to pass them to their customers. Electra's methodology is described below.

Following the Code amendment, the Authority released guidance to assist distributors in allocating the settlement residue. We have had regard for that guidance when deciding our approach to allocating the settlement residue based on the proportion of transmission charges paid by each customer on our network, determining connection location, and how to report the annual breakdown of payments at year-end.

3.   Calculation of settlement residue payments

This section describes the steps to pass through the total residual settlement rebates we receive from Transpower monthly to our customers.

- Step 1— before the start of the pricing year, we forecast the residual settlement rebates we will likely receive from Transpower based on the Authority's SRAM.

- Step 2 — when setting our prices for the year, we reduce transmission charges by the forecast residual settlement rebates, thereby returning the settlement residual through prices.[2]

- Step 3 — each month, after receiving the notification from Transpower of the residual settlement rebates at each GXP[3], we allocate the rebate:

    (a)   at the Mangahao GXP firstly to Mangahao Generation, with the remainder allocated to each electricity retailer trading on our

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[1]   The SRAM aims to promote competition and reduce distortions, ultimately leading to lower prices for delivered electricity.

[2]   The exception to this approach is Mangahao Generation (a large embedded hydro generation scheme), which we return monthly through direct payment.

[3]   We are connected by two GXPs Mangahao and Paraparaumu.

network based on the proportion of ICPs, each trader has on the last day of the month; and

(b) at the Paraparumu GXP, we allocate the entirety of the residual settlement rebates to each electricity retailer trading on our network based on the proportion of ICPs each trader has on the last day of the month.

The approach we use to allocate the residual settlement rebates to retailers ascribes to the following formula —

$$\frac{SRAM@GXP_x}{ICPs@GXP_x} * Retailer_y\ ICPsGXP_x$$

For Mangahao Generation, we include the amount of the allocated residual settlement rebates to them on their invoice as a credit to their line charges. For retailers, we show the allocation of the residual settlement rebates as a credit to their monthly line charges.

Under clause 12.A3(7) of the DDA, we can adjust any payments made to correct for a previous overpayment or underpayment (i.e., apply a wash-up). We have decided not to adjust later for wash-ups. Our approach ensures that our customers receive their monthly allocated residual settlement rebates. We believe a wash-up would unnecessarily complicate a simple and workable approach.

4.   Review of our Settlement Residue Methodology

We will review this methodology annually and seek to align it with best practices as determined by the Authority.

This methodology will be updated should another significant customer connect to the network.