



**SETTLEMENT RESIDUAL  
ALLOCATION METHODOLOGY**

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## SETTLEMENT RESIDUAL ALLOCATION METHODOLOGY

### INTRODUCTION

The Electricity Authority has amended the Electricity Industry Participation Code 2010 (The Code) to provide for development of a new Settlement Residual Allocation Methodology (SRAM). This is to ensure the pass-through of the settlement residual rebates distributors receive from Transpower, to the payers of transmission charges.

In terms of the new clause 12A.3 of The Code, distributors have an obligation to pass-through settlement residual in accordance with the following relevant sub-clauses:

- (2) *A distributor that is paid any amount of settlement residue under clause 14.35A(1) of Part 14 must, on a monthly basis, allocate and pay this amount to its customers that pay lines charges directly to the distributor (“distribution customers”) in accordance with a methodology developed under subclause (3).*
- (3) *Each distributor to whom subclause (2) applies must develop a methodology for allocating settlement residue to its distribution customers that gives effect to the purpose described in subclause (1) and reflects the information provided to the distributor by Transpower under clause 14.35A(6) of Part 14.*
- (4) *A distributor must publish the methodology developed under subclause (3), including an explanation of the rationale for the methodology.*
- (5) *A distributor must publish annually a breakdown of payments made under subclause (2) by connection location and type of distribution customer (for example retailer, direct generation customer, direct load customer).*
- (7) *A distributor may adjust any payment made under subclause (2) to correct for a previous overpayment or underpayment under that subclause.*
- (8) *A payment required under subclause (2) may be met by way of a credit against any amount owed to the distributor by the customer.*

In terms of clause 14.35 on allocation and payment of settlement residue by grid owner, the relevant sub-clauses state that:

- (1) *Each grid owner must allocate and pay any settlement residue to its customers on a monthly basis in accordance with a methodology developed under subclause (2).*
- (2) *Each grid owner must develop a methodology for allocating settlement residue to its customers such that the amount allocated to any customer is in proportion to that customer’s share of the total charges for using the grid owner’s part of the grid.*

## **RATIONALE**

In developing its methodology Network Waitaki's rationale is to comply with the obligations for electricity distributors as outlined in clauses 12A.3 and 14.35A to ensure the intent of the SRAM is achieved, i.e. pure pass-through of settlement residue per location in the same ratio as transmission charges were paid for that location.

## **OVERVIEW OF NETWORK WAITAKI**

Network Waitaki owns, manages, and operates the electricity distribution network in the supply area covering North Otago and parts of South Canterbury, and is 100% owned by the Waitaki Power Trust. Network Waitaki has 20 retailers operating on its network and 3 direct load customers. The number of Installation Connection Points (ICPs) connected to the network is approximately 13,240.

Network Waitaki has 4 connection locations or Grid Exit Points (GXPs), namely Oamaru (the main supply area with majority of electricity customers), Waitaki, Twizel and Black Point with one customer.

## **METHODOLOGY TO ALLOCATE SETTLEMENT RESIDUE**

1. Network Waitaki invoices retailers and direct customers monthly for network services provided. These invoices include a component identified as transmission charges. For each retailer/direct customer, this component is calculated per connection location (GXP). It is shown as an aggregated total on invoices.
2. Transpower provides a monthly refund statement, describing the settlement residue per GXP relating to a specified prior consumption month.
3. The settlement residue for each GXP is apportioned across the retailers / direct customers in the ratio of transmission charges invoiced to them for that GXP for the relevant consumption month. Amounts are rounded to whole cents.
4. The share of settlement residue is then included on each retailer / direct customer's invoice from Network Waitaki as a single aggregated credit line, with an attached schedule providing the detail per GXP.
5. In the instance where the settlement residue is a debit and not a credit, the treatment will be the same as above, other than the result will be a charge line rather than a credit line on the invoices.
6. As with network billing and as intended in subclause 7 of clause 12A.3 any payment will be adjusted in months 3, 7 and 13 in accordance with the normal billing cycle to correct for a previous overpayment or underpayment. Adjustments to the settlement residue will be part of the aggregated line shown in the invoice with the attached schedule providing the detail.
7. On an annual basis Network Waitaki will publish a breakdown by connection location and type of distribution customer, showing settlement residue credits paid and debits charged within invoices issued for the preceding April to March year.