

Settlement residual rebates pass-through methodology (SRAM)

Effective 1 April 2023

Introduction

The Lines Company (TLC) supplies electricity distribution services to the King Country, Ruapehu and Central Plateau areas. The majority of our end-consumers have their distribution services supplied via a conveyance agreement with Electricity Retailers (retailers). The remaining customers are directly billed for these services by TLC (direct billed customers).

Pursuant to Clause 12A.3 of the Electricity Industry Participation Code 2010 (Code), from 1 April 2023, distributors are required to allocate and pay all settlement residue received from Transpower to distribution customers. Distribution customers include retailers and direct billed customers.

Settlement residual rebates arise because the wholesale electricity market generates a surplus, called loss and constraint excess (LCE). After the reconciliation of the electricity market, the balance of funds is paid to Transpower. These settlement residues are distributed to Transpower's transmission customers, including TLC. TLC is required to pass-through the settlement residues to its distribution customers.

This document aims to explain:

1. Our Settlement Residual Allocation Methodology (SRAM); and
2. How we pay settlement residue to our distribution customers.

Our Settlement Residual Allocation Methodology

The Code requires TLC to allocate its settlement residual rebate to its distribution customers in proportion to the transmission charges they paid in respect to each connection location. Given that TLC already allocates transmission charges as per our pricing schedules, the invoiced amounts are utilised as a base to allocate the rebate.

The settlement residual rebate allocation amount for each retailer or direct billed customer is based on their monthly transmission invoices amount as follows:

1. The transmission invoiced amount for each paying retailer and direct billed customer is calculated based on the initial billing file received for the month from our published transmission prices in our price schedule or charged directly billed to customers.
2. The settlement residue is then allocated for each customer based on an individual percentage of the total transmission bill split by connection location.

The settlement residue rebate is either allocated to direct billed customers ICP's or ICP's are summed up per retailer. We issue a monthly credit note per distribution customer. The timing of the credit note is dependent on when TLC receives the settlement residual residue credit from Transpower. This is typically in arrears.

We will publish an annual breakdown of the credits after the completion of the regulatory year.

Electricity Authority Guidance

TLC's methodology is compliant with the Electricity Authority's [Settlement residual rebates pass-through Guidance for distributors May 2023](#).

The Authority's high-level guidance is that distributors should:

- a) **Allocate in proportion to the transmission charges:** Distributors are required to allocate settlement residue in proportion to the transmission charges paid by these customers by connection location.
- b) **Allocate in respect of each connection location:** Settlement residue must be allocated in respect of each connection location.
- c) **Allocate and pay on a monthly basis:** Distributors are required to allocate and pay the full amount of settlement residue received from Transpower each month. Payments can be adjusted for previous over- or under-payments.
- d) **Publish the methodology:** Distributors must publish their methodology for allocating settlement residue including the rationale for the methodology.
- e) **Publish an annual breakdown:** Distributors must publish annually a breakdown of settlement residue payments by connection location and type of distribution customer.