

14 November 2022

By email

Tim Sparks
Director Network Pricing
Electricity Authority

Tēnā koe Tim

Re: Settlement Residual Allocation Methodology (SRAM) – Whether regulated under Part 4 of the Commerce Act 1986

Thank you for your letter of 25 October 2022 seeking a Commerce Commission (**Commission**) view on whether administering the settlement residual allocation methodology (**SRAM**) comes within the meaning of ‘electricity lines services’ (**ELS**) under s 54C of the Commerce Act 1986 (**Act**).

As context, you advised that, following consultation, the Electricity Authority (**Authority**) is considering whether to incorporate into the Electricity Industry Participation Code 2010 (**Code**) provisions requiring Transpower (as grid owner) and distributors to allocate and pay settlement residue to their customers according to the SRAM. For simplicity, we describe these activities together as ‘administering the SRAM’.

If administering the SRAM is a service that is part of ELS, or is a cost incurred in supplying ELS, then the Commission could allow the costs of administering the SRAM to be recovered through regulated revenue under Part 4 of the Act. This reflects our general position that if the regulatory system imposes obligations on a regulated party, then that party should, at least in principle, be able to recover the efficient costs of meeting those obligations as costs of doing business.

However, we do not consider that administering the SRAM is part of ELS, or a cost incurred in supplying ELS. This is mainly because settlement residue arises not from the conveyance of electricity by line, or from services performed by Transpower as the system operator under the Electricity Industry Act 2010, but from the design and operation of the wholesale electricity market (which does not fall under the system operator). This means that:

- the costs of administering the SRAM are not costs incurred in the supply of ELS
- any revenue received by Transpower or EDBs for administering the SRAM would be unregulated revenue under Part 4.

Ngā mihi

A handwritten signature in blue ink that reads "Andy Burgess". The signature is written in a cursive style with a period at the end.

Andy Burgess
General Manager, Infrastructure Regulation