

Settlement residual rebates pass-through

Guidance for distributors

Published: May 2023

Executive summary

This practice note provides guidance for distributors on passing through settlement residual rebates to their customers and on making related disclosures. It is intended to assist distributors and to promote consistency across distributors.

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

- a) **Allocate in proportion to transmission charges:** Distributors are required to allocate settlement residue in proportion to the transmission charges paid by those 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. The Authority suggests the form of this disclosure in section 6 of this note but has chosen not to prescribe the form at this time.

Contents

Executive summary	2
1 Introduction	4
Purpose of this guidance	5
Who is the guidance for	5
2 Allocate in proportion to transmission charges	5
3 Allocate in respect of eachby connection location	5
4 Allocate and pay on a monthly basis	6
5 Publish the methodology	6
6 Publish an annual breakdown	7
Appendix: Publishing template	9

1 Introduction

- 1.1 The new Settlement Residual Allocation Methodology (SRAM) will take effect from 1 April 2023.¹ Transpower will pay settlement residual rebates to transmission customers (including distributors) in accordance with the SRAM, with the first payment on 20 June 2023 relating to settlement residue from the month of April. Distributors are required to pass through the rebates to their own customers.
- 1.2 Clause 12A.3 of the Code sets out the requirements for settlement residue pass through as detailed below:

12A.3 Distributors must pass through settlement residue

- (1) The purpose of this clause is to allocate **settlement residue** to customers in proportion to the transmission charges paid by those customers in respect of each **connection location**.
- (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).
- (6) From time to time the **Authority** may prescribe the form that the annual breakdown of payments must take when **distributors** publish this breakdown of payments under subclause (5).
- (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.
- (9) This clause applies to **settlement residue** paid to a **grid owner** in respect of any **trading period** on or after 1 April 2023.

- 1.3 This guidance note provides additional information for distributors to assist them in their pass-through of rebates to their customers and their SRAM-related disclosures.
- 1.4 This guidance applies to pass-through of settlement residual rebates under the new SRAM that applies from 1 April 2023. The requirements and suggestions apply to

¹ Refer to www.ea.govt.nz/assets/dms-assets/31/Settlement-Residue-Allocation-Methodology-decision-paper-v2.pdf

settlement residues that arise from trading periods on or after 1 April 2023. The first set of annual reporting is expected around August 2024.

Purpose of this guidance

- 1.5 Complementing the requirements in the Code, the purpose of this guidance is to:
- (a) clarify requirements relating to SRAM pass-through, reflecting feedback and questions from stakeholders
 - (b) promote consistency of disclosures across distributors to help make it easier for stakeholders to draw insights from disclosed information by suggesting the form annual disclosures should take.

Who is the guidance for

- 1.6 This guidance is written for two audiences:
- (a) distributors – to assist with design and implementation of their SRAM pass-through and disclosures
 - (b) distribution customers (including retailers and end users) – to assist consumers with transparency about the payments and disclosures they should expect.

2 Allocate in proportion to transmission charges

- 2.1 Distributors should allocate settlement residual rebates to their customers in proportion to the *transmission charges* paid by those customers in respect of each connection location.² This is consistent with the purpose of the distributor pass-through requirements with respect to settlement residue.³ It is also consistent with the guidance on transmission charge pass-through published by the Authority in 2022.
- 2.2 The allocation is intended to be relatively simple (not disproportionately complex). The Authority does not expect distributors to take into account the extent to which individual customers may be exposed to wholesale market price volatility or transmission constraints – or any other information they may have. Also, the Authority does not expect distributors to unpick transmission charges into their individual components for the purposes of passing through settlement residue.⁴

3 Allocate in respect of each connection location

- 3.1 As noted above, distributors should allocate settlement residual rebates in proportion to transmission charges paid by customers *in respect of each connection location*.
- 3.2 Connection location means “a substation or other location at which lines, equipment and plant owned or managed by a designated transmission customer that are directly related to a point of connection, and that are used for the consumption, conveyance, or generation of electricity, are directly connected to the grid.”⁵

² “The transmission charges paid by those customers” refers to transmission charges that are passed through by the distributor to those customers – and so are ultimately paid by those customers.

³ Clause 12A.3(1) of the Code.

⁴ Transmission charges consist of connection charges, benefit-based charges and residual charges. Benefit-based charges can be further broken down into simple method, standard method and allocations in relation to seven major historical investments (included in Appendix A of the TPM).

⁵ Clause 1.1(1) of the Code.

- 3.3 Allocation in respect of each connection location is more granular than allocation in respect of a broad regional pricing area, but less granular than allocation in respect of grid exit point (GXP). Where there are multiple GXPs at a single connection location, the Authority does not expect distributors to break down the allocation by GXP.
- 3.1 The Authority expects that settlement residual rebates should be allocated to customers in proportion to the transmission charges they paid, taking into account the connection location in respect of which a transmission charge relates. This allocation should be consistent with how distributors allocate transmission charges through pricing.
- 3.2 Where transmission charges are passed through in respect of connection location the settlement residual rebates should be allocated in respect of each connection location, however where transmission charges are passed through at the network level (such as region or balancing area) the settlement residual rebates should be allocated at that level.
- 3.3 The Code requires Transpower to disclose to distributors, on a monthly basis, the connection location to which settlement residue payments relate, and – where applicable – whether payments relate to grid offtake or grid injection.⁶ Distributors' own settlement residue allocation methodologies should reflect this information.⁷

4 Allocate and pay on a monthly basis

- 4.1 The total amount of settlement residue a distributor receives each month from Transpower must be reflected in the total amount that is allocated and paid each month to its customers. For example, if a distributor receives \$450,000 from Transpower for the month of April, the distributor should ensure the entire \$450,000 is allocated and paid to its customers within a month.⁸ This means, for example, that funds should not be held until the end of the year and distributed annually.
- 4.2 Payments can be adjusted to correct for any previous overpayments or underpayments of settlement residue.⁹

5 Publish the methodology

- 5.1 Distributors must publish their allocation methodologies, including an explanation of the rationale for the methodologies.¹⁰ As outlined in the SRAM decision paper,¹¹ we would encourage distributors to publish their methodologies before May 2023.
- 5.2 The Authority would encourage distributors to publish these methodologies as a standalone document (as opposed to publishing it as part of their pricing disclosure documents). This will ensure the information is easily accessible and will provide consistency across distributors. However, if a distributor does choose to include this methodology as part their pricing disclosures, we would request the distributor to

⁶ Clause 14.35A of the Code.

⁷ Clause 12A.3(3) of the Code.

⁸ Clause 12A.3(2) of the Code.

⁹ Clause 12A.3(7) of the Code.

¹⁰ Clause 12A.3(4) of the Code.

¹¹ Refer to www.ea.govt.nz/assets/dms-assets/31/Settlement-Residue-Allocation-Methodology-decision-paper-v2.pdf

include a statement that clarifies that pass-through of settlement residual rebates is subject to regulation under 12A.3 of the Electricity Industry Participation Code 2010 and is not regulated under Part 4 of the Commerce Act 1986 (Part 4).

6 Publish an annual breakdown

- 6.1 Distributors are required to publish an annual breakdown of settlement residual rebates by connection location and type of distribution customer (for example retailer, direct load customer or direct generation customer).¹²
- 6.2 This guidance applies to pass-through of settlement residual rebates under the new SRAM that applies from 1 April 2023. The requirements and suggestions apply to settlement residues that arise from trading periods on or after 1 April 2023. The first set of annual reporting is expected around August 2024.¹³
- 6.3 Because settlement residue is not subject to Part 4 regulation,¹⁴ the disclosure will be separate from disclosures relating to distribution pricing.¹⁵ To help the Authority and other stakeholders in assessing the cost of lines services (distribution and transmission) net of any settlement residual rebates, we want to ensure broad consistency with the pricing quantitative disclosures. To assist such assessments, we suggest distributors align the timing for SRAM-related disclosures with distribution pricing disclosures under Part 4.
- 6.4 In addition to publishing the disclosures on their websites, we request that distributors voluntarily provide this information to us.
- 6.5 Below we provide an outline of the information we seek, noting that the form of these disclosures is provided as guidance only. The Authority is not prescribing the form of the annual breakdown of payments at this time.¹⁶ We may do this after we have reviewed the initial disclosure.
- 6.6 Our preference is for consistency in disclosures as this will make it easier for interested persons (including they Authority) using the information in their assessments. We intend to deal with requests to use a disclosure format that differs from the suggested form, for example on the basis of confidentiality, on a case-by-case basis. We are happy if you contact us with an alternative suggestion.¹⁷
- 6.7 The annual disclosure should reflect the 12 months in which the rebates accumulate. So for disclosures in relation to pricing year 23/24 (1 April 2023 to 31 March 2024) the disclosure should reflect the amounts for April 2023 (paid by Transpower in May

¹² Clause 12A.3(5) of the Code.

¹³ We suggest distributors broadly align timing for annual SRAM reporting with the timing of disclosures under Part 4.

¹⁴ www.ea.govt.nz/assets/dms-assets/31/Commerce-Commission-response-to-request-for-view-on-whether-allocating-SRAM-is-electricity-lines-services-under-Part-4-of-the-Co-v2.pdf

¹⁵ Specifically the report on billed quantities and line charge revenues schedule in schedule 8 of the information disclosure requirements [Electricity-Distribution-Information-Disclosure-Determination-2012-Consolidated-version-9-December-2021.pdf \(comcom.govt.nz\)](http://www.comcom.govt.nz/assets/dms-assets/31/Information-Disclosure-Determination-2012-Consolidated-version-9-December-2021.pdf)

¹⁶ Clause 12A.3(6) of the Code.

¹⁷ One distributor raised in feedback on our draft guidance that disclosure of direct load and direct generation customers by connection location may reveal commercially sensitive information, particularly if there is only one direct load or direct generation customer.

2023, and passed through by EDBs in June 2023) to the March 2024 (paid by Transpower in April 2024, and passed through by EDBs in June 2024).

- 6.8 The appendix to this note sets out the suggested content for annual disclosures of settlement residual rebates.

Appendix: Publishing template

Company name:	
Year ended:	

Annual report with breakdown by connection location

Connection location	Network or sub-network name ¹⁸	Customer type	Allocation (\$000)
ID1	[network ID]	Retailers	
ID1	[network ID]	Direct load customers	
ID1	[network ID]	Direct generation customers	
ID2	[network ID]	Retailer	
ID2	[network ID]	Direct load customers	
ID2	[network ID]	Direct generation customers	

Annual report by customer type

	Customer type	Allocation (percentage)	Allocation (\$000)
	Retailers		
	Direct load customers		
	Direct generation customers		
	Total		

¹⁸ Network and sub-network has the same meaning as the definition in the Electricity Distribution Information Disclosure Determination 2012 [Electricity-Distribution-Information-Disclosure-Determination-2012-Consolidated-version-9-December-2021.pdf](https://www.comcom.govt.nz/~/media/1/2/2/1/2012-Consolidated-version-9-December-2021.pdf) (comcom.govt.nz)

Monthly report by customer type (\$000)

Month	Retailers	Direct load customers	Direct generation customers	Total	Residue received from Transpower
April					
May					
June					
July					
August					
September					
October					
November					
December					
January					
February					
March					
Total					