

SETTLEMENT RESIDUAL ALLOCATION METHODOLOGY (SRAM)

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1 DOCUMENT PURPOSE

This document details Aurora Energy's approach to distributing settlement residual rebates to its customers¹, which aligns with the Settlement Residual Allocation Methodology (SRAM) guidance for distributors² published by the Electricity Authority.

2 BACKGROUND

The wholesale electricity market (WEM) is a market where electricity is traded between generators and retailers. The price of electricity in this market is settled each month using half-hourly nodal prices, which are based on the marginal cost of generating and transmitting electricity at specific locations.

Due to transmission losses and congestion, downstream nodal prices are generally higher than upstream nodal prices. This means that customers end up paying more for electricity than generators receive. As a result, there are surplus funds left over after the WEM settlement, known as the loss and constraint excess (LCE).

Some of the LCE is used in the financial transmission rights (FTR) market, which allows market participants to manage their financial risk by hedging against the price difference between two locations. The remaining funds, which are called the settlement residue, are transferred to Transpower for distribution to its transmission customers.

Transpower distributes the settlement residue among its customers (e.g., electricity distributors) as a settlement residual rebate. If Transpower were to retain these funds, it would over-recover its costs, and customer payments in aggregate would exceed Transpower's transmission network costs.

3 AURORA ENERGY'S ALLOCATION METHODOLOGY

Under the new SRAM, Aurora Energy will allocate and pay any amount of settlement residue received to customers that are directly billed by Aurora Energy. Once Aurora Energy receives the settlement residual rebates from Transpower Aurora Energy distributes rebates in proportion to the pass-through revenue collected from each customer in each respective pricing area (Dunedin, Central Otago / Wānaka, and Queenstown). Figure 1 shows the flow chart of this transfer of settlement residual rebates from Transpower to Aurora Energy's customers.

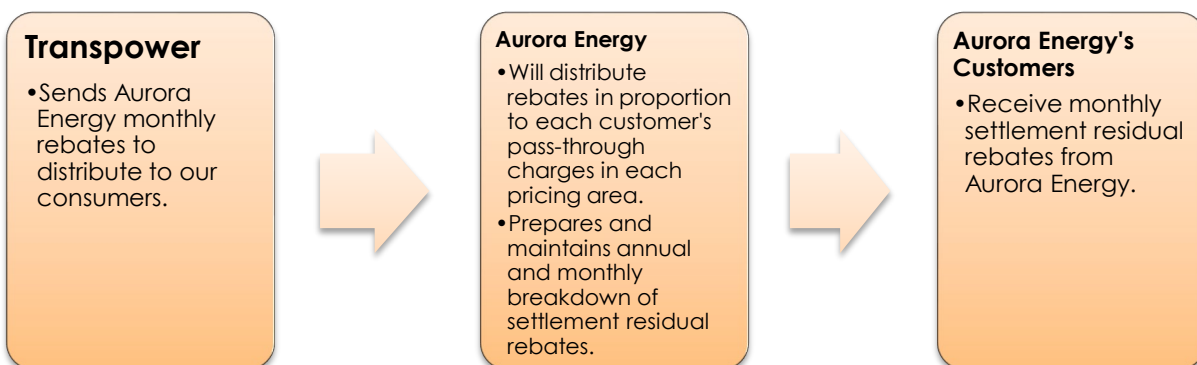


Figure 1: Flowchart for settlement of residual rebates.

¹ Aurora Energy's customers include retailers, direct generation customers, and direct load customers.

² [Settlement residual rebates pass-through guidance for distributors.](#)

For example, if for the month of June, Aurora Energy receives a rebate of \$100,000 from Transpower for the Dunedin pricing area and if Aurora Energy's customer "X" paid 20% of the total pass-through charges for that area during the same month, then Aurora Energy will rebate \$20,000 to that customer "X". The remaining rebates will also be distributed among other customers in the same manner, based on the proportion of pass-through charges paid. This practice ensures that each customer benefits from the settlement residual rebate based on their respective contribution towards pass-through revenue.

4 PAYMENT FREQUENCY

Aurora Energy pays the settlement residue monthly in accordance with the guidelines outlined in the Code. Additionally, Aurora Energy records payments made to its customers on a monthly and annual basis, which will be consolidated and published annually for transparency purposes. Appendix A shows a template of information that will be published by Aurora Energy on annual basis.

Aurora Energy also reserves the right, as stated in Clause 12A.3(7) of the Code, to adjust any overpayments or underpayments of settlement residue made in the past.

5 APPENDIX A – DISCLOSURE

Table 1: Aurora Energy's Annual report with breakdown by Pricing Area for RY24.

Pricing Area	Customer Type	Allocation (\$000)
Dunedin	Retailers	\$350
	Direct Load	-
Central Otago / Wānaka	Retailers	\$192
	Direct Load	-
Queenstown	Retailers	\$752
	Direct Load	\$13

Table 2: Annual breakdown by Customer Type for RY24.

Customer Type	Allocation (Percentage)	Allocation (\$000)
Retailers	99%	\$1,295
Direct Load	1%	\$13
Total		

Table 3: RY24 Monthly Report by Customer Type (\$000).

Month	Paid to Retailers	Paid to Direct Load Customers	Residue Received from Transpower
April	\$108	\$1	\$109
May	\$174	\$2	\$176
June	\$188	\$2	\$190
July	\$226	\$3	\$229
August	\$164	\$2	\$166
September	\$94	\$1	\$95
October	\$69	\$1	\$69
November	\$52	\$1	\$52
December	\$40	\$0	\$40
January	\$52	\$0	\$53
February	\$61	\$0	\$61
March	\$68	\$1	\$69
Total	\$1,295	\$13	\$1,309

Aurora Energy distributes the full amount of the residue received to its customers on a monthly basis by reference to invoices received from Transpower.