

SETTLEMENT RESIDUAL ALLOCATION METHODOLOGY (SRAM)

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1 DOCUMENT PURPOSE

Clause 12A.3 of the Electricity Industry Participation Code 2010 (Code) requires electricity distributors to develop a methodology for allocating settlement residue to its customers. The Electricity Authority developed guidance for distributors in relation to these requirements.

This document outlines Aurora Energy's settlement residual allocation methodology (SRAM), which aligns with the requirements of the Code and the guidance 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

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.

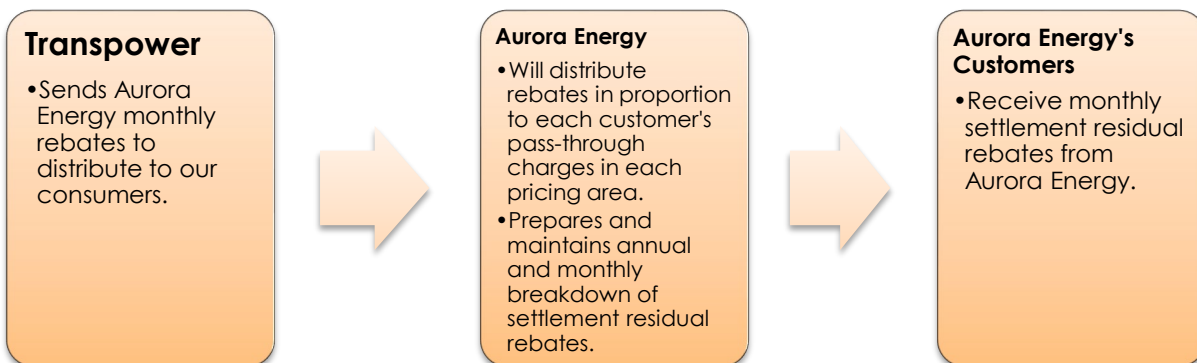


Figure 1: Flowchart for settlement of residual rebates.

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 clause 12A.3(2) of 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.

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.