

2024 SETTLEMENT RESIDUE REBATES PASS-THROUGH ALLOCATION METHODOLOGY

From 1 April 2023

Pursuant to: Clause 12A.3 of the Electricity Industry Participation Code 2010

INTRODUCTION

Vector Limited (“Vector”, “our”, “we”, or “us”) receives settlement residue from Transpower under clause 14.35A of the Electricity Industry Participation Code 2010 (the Code). We are required to pass through settlement residue and publish our methodology for allocating settlement residue (Methodology).

This document constitutes our Methodology and describes:

1. How settlement residue is allocated to distribution customers¹ ;
2. An explanation of the rationale for the Methodology; and
3. How we pay settlement residue to our distribution customers

ALLOCATION OF SETTLEMENT RESIDUE

Vector changed to a Grid Exit Point (GXP) allocation approach for the pass-through of transmission charges on 1 April 2023. This change was largely driven by the introduction of the new Transmission Pricing Methodology (TPM) by Transpower. Transpower’s monthly charges at each GXP are allocated to each customer based on each customer’s percentage share of historical energy usage. Vector uses the same approach to allocate settlement residue.

- Customers GXP percentage shares are calculated using historic total energy usage (year to September 2022). Data used in this calculation is from retailer ICP level submissions to Vector in the EIEP1 and EIEP3 format.
- ICPs are attributed to customers and GXPs as at 31 December 2022 from EA registry data.
- Customer and GXP volumes are the sum of the ICP volumes (year to September 2022) for their ICPs as at 31 December 2022.

$$\begin{aligned} & \text{Customer's monthly allocation of settlement residue} \\ & = \text{Customer's GXP percentage share} \times \text{GXP's settlement residue} \\ \\ & \text{Customer's GXP percentage share} = \frac{\text{Customer's energy usage}}{\text{GXP's energy usage}} \end{aligned}$$

¹ For the purpose of this Methodology, customers or distribution customers mean retailers and direct load customers that pay lines charges directly to Vector

OUR ALLOCATION METHODOLOGY RATIONALE

The Code requires Vector to allocate settlement residue to customers in proportion to the transmission charges paid by those customers in respect of each connection location. Given that Vector already allocates Transpower charges by GXP, it follows that the same methodology should be used for the allocation settlement residual by GXP. If there is any washup determined by Vector to be required of Transpower charges allocated to customers at a GXP, these washups may be facilitated by adjustments to the settlement residue.

More information about the rationale for Vector to transition to GXP allocation of transmission charges can be found on [Vector's website](#).

PAYMENT OF SETTLEMENT RESIDUAL

Under the Code, any amount of settlement residue that Vector is paid, Vector must, on a monthly basis, allocate and pay this amount to its customers that pay charges directly to Vector. Payment of settlement residue may be met by way of a credit against any amount owed to Vector. Vector may adjust any payment of settlement residual to correct for a previous overpayment or underpayment of settlement residual and to facilitate washups as noted above. Vector will issue credit notes to each customer allocated settlement residual each month with due date of the 20th. Payments from Transpower are six weeks lagging thus April paid 20 June to Vector will be processed for July 20.

AUTHORITY GUIDANCE

This Methodology is compliant with the Authority's practice note [Settlement residual rebates pass-through Guidance for 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.