

Changes to Orion’s electricity delivery prices for major customer connections

We have completed our annual review and set prices for electricity delivery and equipment that take effect from 1 April 2021.

Although most major customers contract with their electricity retailer for their electricity delivery service, retailers generally reflect our prices in their contracts, so our changes will affect you. This notice provides a summary of the key changes affecting major customer connections.

Regulated price reduction

Orion operates under a regulated default price-quality path (DPP) which was updated and reset by the Commerce Commission to apply for the 5-year period beginning 1 April 2020. Last year the price path reset provided a 6.0% reduction in total delivery prices, and the following 4 years include a CPI based increase, together with a range of regulatory allowances.

In summary:

Distribution cost allowances	Regulated allowances for operations, maintenance, administration and asset-based costs	0.6% +\$1.5m
Transmission related costs	Charges from Transpower for the national grid, and related regulatory allowances vary from year to year	(1.1%) -\$2.6m
Regulatory incentives and adjustments	The DPP includes incentives relating to expenditure and reliability, and includes adjustments for variations	0.3% +\$0.7m
Network growth	When chargeable quantities increase we must set lower prices to remain within the revenue limit set under the DPP	(1.0%)
Overall price reduction		(1.1%)

Within this overall movement, major customers have a relatively lower exposure to the distribution cost allowances which are increasing. This provides an enhanced overall **price reduction of 2.4%** for the category. Looking more closely, the different price components are changing by different amounts, and as each major customer connection has a different exposure to each component, the reduction will vary. For the vast majority the reduction will be between 0.8% and 3.7%.

No price restructuring

Two years ago we introduced several changes and broadened the eligibility to elect to be in the major customer category. We are facing a range of conflicting pressures to further adjust our prices and we are conscious of the impact that structural changes have on customers. In the absence of a clear direction we are not applying further changes this year.

Looking forward, Transpower is currently developing a new pricing methodology to meet the revised guidelines issued by the Electricity Authority. The main feature of the change is a move away from coincident peak pricing in favour of various forms of fixed (unavoidable) pricing. We expect to reflect this change in our prices from 1 April 2023 with a reduction in the control period peak price of around 40% (and a corresponding increase in fixed charges and the less avoidable nominated maximum demand charge).

Pricing methodology

In establishing our prices we have updated our cost allocation model and reassessed the magnitude of the cost reflective components within our pricing. This model is presented in our published pricing methodology document which shows the basis for allocating costs and the return we expect to achieve for each connection category.

We consider a range of issues when setting prices but we think the most important objective is to set prices that appropriately reflect our costs. This approach encourages customers to use electricity when it is economically appropriate to do so, and any cross-subsidy between users is minimised.

Loading and other changes lead to variations in our cost allocation from year to year and, over time, we adjust prices to reflect the longer term trends in these factors.

Export and generation credits

Our export credits reflect the savings in investment that are available when peak loads are reduced with generation. The asset-based cost of investments (and therefore the savings) were reduced significantly with last years regulatory price path reset, and this flowed through as a 20% reduction in export credits last year.

This year we have reviewed the factors supporting the credits and applied a 2.4% reduction to match our revised assessment of capacity-based asset costs.

Further information

A brief overview of how our major customer pricing works is available at www.oriongroup.co.nz/major-summary.

Full detailed information on how we determine quantities and apply prices is set out in section 5 of our pricing policy available at www.oriongroup.co.nz/PricingPolicy.

You may also wish to talk to your electricity retail account manager or call Alex Nisbet, Pricing Manager at Orion (phone 03 363 9737) for more information.

Delivery price changes for major customer connections

(issued 26 January 2021)



The following schedule is an extract from our main schedules showing price changes that affect connections in our major customer pricing category.

All prices exclude GST	Current prices 1 April 2020 to 31 March 2021	New prices from 1 April 2021	Unit of measure
Electricity delivery			
Fixed charge	10.00	10.00	\$/con/day
Fixed charge (additional connections)	5.00	5.00	\$/con/day
Peak charge (control period demand)	0.3955	0.3757	\$/kVA/day
Nominated maximum demand charge	0.1044	0.1034	\$/kVA/day
Metered maximum demand charge	0.0762	0.0769	\$/kVA/day
Monthly invoice and contract charge (for directly contracted major customers)	30.00	30.00	\$/invoice
Dedicated equipment			
Extra switches	3.2700	3.3300	\$/switch/day
11kV Metering equipment	4.2600	4.3400	\$/con/day
11kV Underground cabling	3.3400	3.4000	\$/km/day
11kV Overhead lines	2.1000	2.1400	\$/km/day
Transformer capacity	0.0119	0.0119	\$/kVA/day
Export credits <i>(30 to 750 kW generators, export during control periods, subject to prior approval)</i>			
Real power (kW) credit	(0.0721)	(0.0704)	\$/kW/day
Reactive power (kVAR) credit	(0.0237)	(0.0231)	\$/kVAR/day

Notes

Daily prices are applied all year, including where the measurement period (for example, during control periods) is assessed over a shorter period.

This schedule is a summary only. For full details on our prices and how we apply them, please refer to our *Pricing Policy* document, and our published electricity delivery price schedule, available from our website.

Dedicated equipment prices include standard maintenance, replacement (at end of useful life) and component certification (where appropriate). Initial installation costs and non-recoverable asset costs are charged in addition. Other services may be provided on a 'fee for service' basis by agreement.

Export credits are subject to specific requirements and full details are set out in our *Export Credits Policy* document, available from our website.