

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 2022.

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. Initially 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.

The following table provides a breakdown of the overall movement in the components making up our delivery prices applying from 1 April 2022:

Distribution cost allowances	Regulated allowances for operations, maintenance, administration and asset-based costs	+2.1% +\$4.7m
Transmission related costs	Charges from Transpower for the national grid, and related regulatory allowances vary from year to year	+0.4% +\$0.9m
Regulatory incentives and adjustments	The DPP includes incentives relating to expenditure and reliability, and includes adjustments for variations	-0.6% -\$1.3m
Network growth	When chargeable quantities increase we must set lower prices to remain within the revenue limit set under the DPP and vice-versa	-4.2%
Overall price reduction		-2.3%

Within this overall movement, major customers will on average receive a higher price reduction of **3.7%**. This higher reduction is due largely to forecast quantity growth and a lower allocation of transmission costs. 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 2.4% and 5.0%.

No price restructuring

Unlike some of our other connection categories, the major customer connection pricing structure is already considered to be cost reflective, with costs recovered via a combination of fixed and demand-based charges, and no structural changes are proposed at the present time.

Looking forward, Transpower is finalising their 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 peak prices (and a corresponding increase in fixed charges and the less avoidable anytime demand charges).

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 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 following the regulatory price path reset which commenced on 1 April 2020, and the effects continue to flow through as reductions in export credit prices.

This year we have reviewed the factors supporting the credits and applied a 3.1% reduction to align with the cost reflective distribution component of our general connection peak demand charge.

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 Duncan Golby, Commercial Analyst at Orion (phone 03 363 9627) for more information.

2 February 2022

Delivery price changes for major customer connections

(issued 2 February 2022)



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 2021 to 31 March 2022	New prices from 1 April 2022	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)	0.3757	0.3547	\$/kVA/day
Nominated maximum demand charge	0.1034	0.1061	\$/kVA/day
Metered maximum demand charge	0.0769	0.0701	\$/kVA/day
Monthly invoice and contract charge (for directly contracted major customers)	30.00	30.00	\$/invoice
Dedicated equipment			
Extra switches	3.3300	3.2000	\$/switch/day
11kV Metering equipment	4.3400	4.5000	\$/con/day
11kV Underground cabling	3.4000	3.7100	\$/km/day
11kV Overhead lines	2.1400	2.6000	\$/km/day
Transformer capacity	0.0119	0.0106	\$/kVA/day
Export credits (30 to 750 kW generators, export during control periods, subject to prior approval)			
Real power (kW) credit	(0.0704)	(0.0682)	\$/kW/day
Reactive power (kVAr) credit	(0.0231)	(0.0224)	\$/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.