

Key features of this year's price review

(for prices applying from 1 April 2024)

Orion provides electricity delivery services to electricity retailers and some directly contracted major customers. Prior to 1 April each year we review our delivery prices and pricing policy and issue an updated set of prices and documentation defining how we apply charges.

This document provides a brief summary of the key changes we have applied in this year's update. Full details are available for download from our website, see our:

- *Pricing Policy* document for full details on how we apply charges,
- *Methodology for deriving delivery prices* document for details on how we establish prices and price structures, and
- *Commercial terms for new connections and extensions* document for additional charges that apply for new and modified electricity supplies.

For more information, please contact Orion's pricing team.

Regulated price increase

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 2024:

| | | |
|---|--|------------------|
| Distribution cost allowances | Regulated allowances for operations, maintenance, administration and asset-based costs | +0.8% +\$1.9m |
| Transmission related costs | Charges from Transpower for the national grid, and related regulatory allowances vary from year to year | +1.5% +3.7m |
| Regulatory costs and levies (including incentives and adjustments) | The DPP includes incentives relating to expenditure and reliability, and includes adjustments for variations | +6.6% +15.6m |
| Network growth and other factors | When chargeable quantities increase we must set lower prices to remain within the revenue limit set under the DPP and vice-versa | -1.6% |
| Overall price increase | | +7.3% |

Each of our pricing categories has a different exposure to the components that are increasing and reducing, so the impact can vary.

Pricing methodology

In establishing our prices, we have updated our cost allocation model. 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.

Pricing reform

We have made several fundamental but small changes to our prices effective 1 April 2024. The changes we have made to our pricing approach are listed in the table below.

| Consumer Group | Description of the changes made effective 1 April 2024 |
|---|---|
| General Connections | <p>The general fixed daily supply charge will increase from 45 cents to 60 cents from the 1 April 2024. We intend to move to a fixed installed capacity charge over time. To support a smooth transition to a fixed installed capacity charge, we will conduct a staged process, including comprehensive communication and education program for residential consumers and an audit of all current connections in the SME category.</p> <p>From 1 April 2024, we have transitioned the fixed/variable split from 22% fixed / 78% variable split to 37% fixed / 63% variable. We were able to make this change while:</p> <ul style="list-style-type: none">• Making small immaterial changes to our pricing methodology• Avoiding perverse impacts on consumers• Remaining compliant with the low fixed charge regulations <p>Over the coming years, we will transition the fixed / variable split towards a higher proportion of our costs recovered through a fixed charge. We will do this to the extent permissible each year under the transitional arrangements of the low fixed charges regulations and will preserve some level of price signal through variable charges.</p> |
| General Connections RES (Residential) GEN(GC1) GEN(GC2) GEN(GC3) | <p>From 01 April 2024 we have made some more gradual structure changes to better reflect both Residential and SME connection utilisation of the network. We are transitioning the fixed charge to a capacity-based charge over time. We have introduced TOU variable charging.</p> <p>Change the name of GEN price category to GEN(RES) Controlled fixed network charge (per ICP, per day) Uncontrolled fixed network charge (per ICP, per day) Variable network charge (peak units per kWh) Variable network charge (shoulder units per kWh) Variable network charge (off peak units per kWh) Variable network charge (super off peak units per kWh) Variable network charge (weekend rates units per kWh)</p> |
| Peak charge | Removal of the fixed daily peak charge |

Loss factors and loss factor codes

Losses are the percentage of electricity entering the network lost during the delivery to consumer's connections (i.e., ICPs). The quantity of electricity metered at ICPs is net of losses. The consumption proportion assigned to each retailer at the GXP is determined by the electricity measured at the consumer's meter multiplied by a loss factor.

There are two components to loss factors on our network:

- Fixed component due to the standing losses of the distribution transformers; and
- Variable component arising from the heating effect of resistance on the lines

In 2023, we undertook a review of loss factors using the methodology outlined in the Electricity Authority's guideline. The revised and updated loss factors for the pricing year are provided in the below table. The new loss factors will be effective 1 April 2024.

| (Loss factors effective from 1 April 2024) | | |
|--|-------------|--|
| Code | Loss Factor | Description |
| LVL | 1.0636 | Low voltage metered connections (230v or 400v) |
| 11L | 1.0229 | 11kV metered connections |
| SLL | 1.0068 | Connection specific factors (HV) |
| FSL | 1.0068 | Connection specific factors (HV) |

A schedule of these loss factors, which apply from 1 April 2024, is also available on the pricing page on our website.

Associated service prices and

This year we have adjusted our associated service prices in line with the movement in CPI.

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) was reduced significantly following the regulatory price path reset which commenced on 1 April 2020, and the effects continued to flow through as reductions in export credit prices for the following 4 years.

This year we have reviewed the factors supporting the credits and applied an 8.2% increase to align with the cost reflective distribution component of our peak demand charge.

Further information

An overview of pricing changes specific to our major customer connection category is available at www.oriongroup.co.nz/PricingUpdateMajorSummary

Our pricing documentation including current and previous price schedules and our updated pricing methodology document are available on our website at www.oriongroup.co.nz/DeliveryPricing

Any queries can be directed to Tarryn Butcher, Pricing Manager at Orion 027 204 7877.