

Key features of this year's price review

(for prices applying from 1 April 2023)

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 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 2023:

| | | |
|--|---|------------------|
| Distribution cost allowances | Regulated allowances for operations, maintenance, administration and asset-based costs | +3.6% +\$8.4m |
| Transmission related costs | Charges from Transpower for the national grid, and related regulatory allowances vary from year to year | -3.3% -7.6m |
| Regulatory incentives and adjustments | The DPP includes incentives relating to expenditure and reliability, and includes adjustments for variations | +1.8% +4.1m |
| 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 | -2.6% |
| Overall price change | | -0.5% |

Each of our pricing categories has a different exposure to the components that are increasing and reducing, so the impact can vary. In summary, our average category movements are:

- General connection delivery prices (covering all residential and most business connections) are reducing by 0.6%.
- Irrigation connection delivery prices are increasing by 4.0%.
- Major customer connection delivery prices are reducing by 2.1%
- Streetlighting connection delivery prices are increasing by 1.8%.

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 2023. The changes we have made to our pricing approach are listed in Table 1.

Table1: Summary of the changes made to our pricing approach effective 1 April 2023

| Consumer Group | Description of the changes made effective 1 April 2023 |
|--|---|
| General Connections | <p>The general fixed daily supply charge will increase from 30 cents to 45 cents from the 1 April 2023. 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>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. After 1 April 2027, we will increase the proportion of costs recovered through fixed charges to a fully cost reflective level. We will transition the fixed/ variable charge through de-weighting the daily fixed peak charge</p> |
| General Connections Group 1 Group 2 Group 3 | <p>From 01 April 2023 we have created three new price categories codes. The change better reflects SME connections utilisation of the network. We are transitioning the fixed charge to a capacity-based charge over time.</p> <p>The categories are:</p> <p>General Group GC-1: Small SME up to 15 kVA General Group GC-2: Medium SME from 16 kVA – 69 kVA General Group GC-3: Large SME 70 kVA and above</p> |
| Peak charge | <p>De-weight from the fixed daily peak charge into the variable charge</p> |

Looking forward:

- we will continue to increase the amount of distribution revenue we collect via fixed charges, allowing us to reduce the amount we collect from volume-based charges to deliver a pricing mix that better signals the cost of our service.

Loss factors and loss factor codes

There are no changes to the structure of our loss factors, or the loss factors themselves. A schedule of the loss factors, which apply from 1 April 2023, is available on the pricing page on our website.

Associated service prices and new connection fees

This year we have adjusted our associated service prices in line with the movement in CPI, although we have left new connection fees (customer capital contributions) and temporary isolation charges unchanged.

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 continue to flow through as reductions in export credit prices.

This year we have reviewed the factors supporting the credits and applied a 8.4% reduction to align with the cost reflective distribution component of our general connection 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.

2 February 2023