

Key features of this year's price review

(for prices applying from 1 April 2022)

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 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 change		-2.3%

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 1.8%.
- Irrigation connection delivery prices are reducing by 5.2%.
- Major customer connection delivery prices are reducing by 3.7%
- Streetlighting connection delivery prices are increasing by 0.1%.

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.

Pricing reform

Whilst there are no structural changes this year, we are embarking on our first step toward pricing reform. Following the Government decision in December last year to phase out the low fixed charge regulations commencing 1 April 2022, we are increasing the general connection fixed charge to 30 cents per day. For the average residential customer (using 667 kWh per month on average) the higher fixed charge will result in no change to their delivery charges, however, many lower usage customers are expected to see a small increase in delivery charges. For a residential customer consuming 333 kWh per month the increase is estimated to be \$2.20 per month.

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. This approach will require us to restructure general connection fixed charges to ensure higher capacity connections such as medium to large businesses contribute an equitable share of distribution costs.
- 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).

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 2022, 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) 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

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