

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 2017.

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.

This year's update includes a small CPI based regulated price increase which is more than offset by a reduction in our cost allocation for major customer connections and a reduction in our region's allocation of grid charges. Separately, within the pricing components we have:

- moved to standardise the target return on assets which has reduced several of the dedicated equipment prices,
- shifted the cost recovery for a proportion of Transpower's grid charges to the nominated maximum demand component (with a corresponding reduction in the metered maximum demand component), and
- reduced the control period demand price to bring the amount by which it exceeds the target price to about 8% (this difference will be progressively addressed in future reviews).

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. Of note, the cost allocation for this connection category is improving with the re-categorisation of smaller relatively higher cost connections into the general category.

Regulated price adjustment

Following the 2010 and 2011 earthquakes, which significantly affected our operations, investment requirements and customer base, the Commerce Commission established a five year "customised price-quality path" (CPP) to apply to Orion to enable us to recover earthquake related costs and repair and rebuild our network. For the part of delivery charges that reflect our local network costs, the CPP provided for an initial price increase which we applied on 1 April 2014, and then progressive annual increases 1% above the movement in CPI for following years.

Improved cost allocation

As noted above, the cost allocation in our model shows an improving trend for the major customer category, and the reduced cost allocation more than offsets this CPI based increase, resulting in a 1.5% reduction in the part of delivery charges that reflect the costs of the local network.

National grid transmission costs

The amount Transpower charges us for the national grid and connection assets, including the amounts they charge us for a number of specific upgrade contracts, is reducing by 1.2%. This reduction is largely driven by a change to the way Transpower allocates charges between regions. We are able to pass this reduction on, together with reductions in other transmission related costs, with a 1.6% reduction in the part of delivery charges that reflect transmission costs.

Combined impact of changes

When combined, the local network and transmission updates underpin the average 1.5% reduction in our new delivery prices for major customer connections. Individual major customer connections have different exposure to the various price components, so price changes will vary above and below this average.

Export and generation credits

We have updated our derivation of export credit prices and our separate generation credit prices. The changes to Transpower's allocation of charges between regions (noted above) make it harder for us to use generation to offset transmission costs, and this year we have adjusted credits to reflect this.

As a result, both export and generation credits are reducing a little more than 16%.

Separately, we have reconsidered the benefits provided by generation credits in light of the administrative and technical challenges associated with the operation of generation. As a result we have closed the arrangement to new generation and will reassess the ongoing availability of credits for existing generation in future reviews.

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 Bruce Rogers, Pricing Manager at Orion (phone 03 363 9870) for more information.

Delivery price changes for major customer connections

(issued 2 February 2017)



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

	Current prices 1 April 2016 to 31 March 2017	New prices from 1 April 2017	All prices exclude GST
Electricity delivery			
Fixed charge	1.8565	1.8900	\$/con/day
Peak charge (control period demand)	0.4891	0.4857	\$/kVA/day
Nominated maximum demand charge	0.0899	0.1049	\$/kVA/day
Metered maximum demand charge	0.1001	0.0848	\$/kVA/day
Monthly invoice and contract charge (for directly contracted major customers)	30.00	30.00	\$/invoice
Dedicated equipment			
Extra switches	5.0100	3.5400	\$/switch/day
11kV Metering equipment	7.0500	4.2900	\$/con/day
11kV Underground cabling	2.9500	3.1700	\$/km/day
11kV Overhead lines	1.9100	2.0000	\$/km/day
Transformer capacity	0.0168	0.0133	\$/kVA/day
Export credits <i>(30 to 750 kW generators, export during control periods, subject to prior approval)</i>			
Real power (kW) credit	(0.2706)	(0.2221)	\$/kW/day
Reactive power (kVAr) credit	(0.0299)	(0.0298)	\$/kVAr/day
Generation credits <i>(metered generation output during generation periods, closed to new generation)</i>			
Generation volume credit	(0.60000)	(0.50000)	\$/kWh

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 *Delivery prices* 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.