

Key features of this year's price review

(for prices applying from 1 April 2018)

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.

Please refer to our updated *Pricing Policy* document for full details on how we apply charges, and *Methodology for deriving delivery prices* for full details on how we establish prices and price structures (both documents are available on our website). For more information please contact Orion's pricing team.

Regulated price increase

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 prices that reflect our local network costs, the CPP provided for an initial increase which we applied on 1 April 2014, and then progressive annual increases 1% above the movement in CPI for following years. This pricing update is the fifth and final update in our five year CPP period.

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, and related regulatory allowances is reducing by a very small amount (about 0.2%). This reduction reflects our higher contribution to regional loading levels last winter (attracting a greater share of grid costs) which is offset by a reduction in Transpower's prices and a reduction in our regulatory allowances for transmission assets that we took responsibility for in recent years.

Combined impact of changes

Combined, overall average delivery prices are increasing by 2.3%. The effective price increase is different for each category, and for customers within each category, as each has a different exposure to the various price components.

In summary:

- General connection delivery prices (covering all residential and most business connections) have increased by 2.2%.
- Irrigation connection delivery prices have increased by 5.5%.
- Major customer connection delivery prices have increased by 2.5%
- Streetlighting connection delivery prices have increased 5.4%.

Fixed daily charge for general connections

Following consultation in 2017 we considered introducing a universal 15 cent per day (excluding GST) fixed charge for general connections. However, given the impact that this change would have had on lower consumption customers, and in the context of the overall distribution price movement, we have decided not to introduce this charge this year. We will reconsider it for our 1 April 2019 price changes. The rationale for such a change and feedback from our consultation on it is available on our website at <http://www.oriongroup.co.nz/customers/our-prices>.

Adjustments for major customer connections

With this update we are extending the loading range where customers can elect to be in the major customer category and making some adjustments so that the resulting charges better reflect our costs at this lower end of the range, by:

- increasing the base daily fixed charge to \$7.50 per day (excluding GST), and
- applying a minimum 300 kVA to the metered maximum demand charge.

These changes have been introduced as the first step to apply the changes proposed in our consultation in 2017. We anticipate applying a further step (with a higher fixed daily price offset by a lower control period price) in our 1 April 2019 update. The rationale for the changes and feedback from our consultation is available on our website at www.oriongroup.co.nz/customers/our-prices.

We have identified a small number of customers that have a greater exposure to these changes and we will phase in the 300 kVA minimum over two years to ensure that the initial overall effective price increase is capped at about 10% (resulting charges will vary above and below this cap due to changing quantities).

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 2018, 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 with the cumulative movement in CPI since the last adjustment in April 2015. New connection fees (customer capital contributions) have not changed.

Export and generation credits

We have updated our derivation of export credit prices reflecting an improved alignment with the timing of chargeable transmission peaks but reduced savings against Transpower's lower interconnection charge, and a reduction in our assessment of the peak demand related costs on our network. As a result export credits are reducing by about 1%.

Our separate generation credit arrangement remains closed to new generation and we have left the credit prices the same for existing participating generators.

Refer to our document *Export and generation credits policy* at www.oriongroup.co.nz/EGCreditPolicy for details.

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 is available on our website at www.oriongroup.co.nz/DeliveryPricing

Any queries can be directed to Bruce Rogers, Pricing Manager at Orion (phone 03 363 9870).