

Key features of this year's price review

(for prices applying from 1 April 2017)



Orion provides electricity delivery services to electricity retailers and some directly contracted major customers. Each year we review our delivery prices and pricing policy and in late January or early February we 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.

This year's update is characterised by a CPI based regulated price increase which is largely offset by a reduction in the transmission charges we pass on for the national grid.

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.

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 1.7% reduction in the part of delivery prices that reflect transmission costs.

Combined impact of changes

When combined, the local network increase is almost entirely offset by the transmission reduction and overall average delivery prices are increasing by less than 0.1%. 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 0.7%.
- Irrigation connection delivery prices have decreased by 7.5%. The irrigation category is changing significantly with the roll out of the central plains irrigation scheme, and this decrease aligns revenue with our updated cost allocations based on forecast loading levels.
- Major customer connection delivery prices have decreased 1.5%. Again, this movement aligns the revenue with our updated cost allocation. Of note, the cost allocation for this connection category is benefiting from the re-categorisation of smaller connections into the general category.
- Streetlighting connection delivery prices have decreased 1.1%.



Reduction in peak prices

This year we have reduced our peak prices by a small amount with the peak period price for general connections reducing 0.3% and the control period price for major customer connections reducing 0.7%.

Peak prices were moved above the level of the costs they reflect in our initial Customised Price Path adjustment, and this reduction continues the progressive realignment with costs.

The peak period and control period prices remain about 12% and 8% (respectively) above the costs they aim to reflect and we expect to continue to address this over future pricing reviews.

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 2017, is available on the pricing page on our website.

Associated service prices and new connection fees

This year, with the small movement in CPI, we have again left most prices unchanged.

We have removed the “supply box hire” charge for builders’ temporary supplies as we no longer provide this service. We have also simplified the basis for applying connection and disconnection charges for temporary supplies.

New connection fees (customer capital contributions) have not changed.

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) also 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.

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).