

Key features of this year's price review

(for prices applying from 1 April 2010)

Orion provides delivery services to electricity retailers and some directly contracted major customers. Each year we review our delivery prices and application of charges. In early February we issue an updated set of prices and documentation defining how we apply charges.

Please refer to our updated documents *Application of delivery prices* 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.

This document provides a brief summary of the key changes we have applied in this year's update. For more information please call Orion's commercial pricing team on 0800 363 9898.

No change to pricing structure

Last year we made some significant changes to our charging basis including:

- Amalgamating zones A & B into a single network wide, winter peaking pricing area.
- Changing to a kW based peak charge for general connections (rather than kVA based).
- Introducing a low power factor charge to apply at our discretion where a general connection has a low power factor.
- Creating a new "Irrigation connections" category to reflect the unique loadings and costs associated with this group of connections.

We recognise the costs associated with changes of this nature and advantages of providing price stability. This year we have not made any changes to our pricing structure.

Increase in distribution component of prices

For the distribution part of our delivery service (refer below for the transmission part), we have adjusted our prices with the aim of complying with the CPI based price path that the Commerce Commission has put in place for us. The CPI movement is 2.5%, and with some other allowable adjustments, our average distribution prices are increasing 2.9%.

Reduction in transmission component of prices

For the transmission component of prices (the part that covers our charges from Transpower, the national grid owner), we have reduced our prices by 3.3%. Mainly as a result of our co-ordinated effort with other upper South Island distributors to reduce peak loads, our charges from Transpower next year are reducing by approximately 3.8%. Our slightly smaller reduction in prices allows for some movement in our chargeable quantities.

Impact on connection categories

We have reviewed each connection category's contributions to our costs and the price movements (within the averages noted above) differ. In summary:

- General connection prices (covering all residential and most business connections) have increased by 1.3% (combining a distribution increase and a transmission reduction). This is our largest connection category and the price movements largely reflect the influences noted above.
- Irrigation connection prices have reduced by 5.1% (with reductions in both the distribution and transmission components). This reduction follows a similar reduction last year, although last year's restructure masked the reduction somewhat. We continue to see improving load factors from this sector which tends to increase chargeable quantities without increasing costs.
- Major customer connection prices have increased by 2.4% (combining a distribution increase and a transmission reduction). We continue to under-recover our cost allocation for this category and again we have increased prices a little more than our average movement to partially address this imbalance. With this price adjustment the problem is largely resolved but there still remains a small shortfall which we will address in future years with slightly higher than average price changes.

Presentation of prices

In response to feedback from within the industry and from customers, we have adjusted the presentation of prices to match the format normally seen on retail invoices. In most cases, this means that we are now expressing prices as cents per day, rather than dollars per year.

Loss factors and loss factor codes remain unchanged

There will be no change to our loss factors or loss factor codes on 1 April 2010. For clarity we have reissued the 1 April 2009 loss factor schedule.

Associated service prices and new connection fees

We have reviewed and adjusted our associated service prices, with most components increasing by approximately 2.5%. We have not changed our fees for new connections.

Export and generation credits

We have updated our derivation of export credit prices and, for our control period based credits, we have decreased both the distribution and transmission components with an overall reduction of 5.5%. The new prices better reflect the relationship between Orion network control periods and both transmission peaks and local peak demands in some parts of our network.

We have also decreased our generation credits price, by 7.7%, reflecting diesel prices that are much lower than they were in 2008 when we increased the price by 30%.