

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 2020.

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.

Regulated price reduction

Orion operates under a regulated price-quality path which has been updated and reset by set by the Commerce Commission to apply for the 5 year period beginning 1 April 2020. Among other things, the updated price-quality path takes account of the current low-interest environment in which we are operating, and this has lowered our prices. In terms of total delivery prices, the new price path provides a 6.0% reduction for major customer connections.

National grid transmission cost increase

Partially offsetting the reduction above, 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 increasing this year. The increase reflects a return to normal seasonal loading patterns following the favourable result last year. We are pleased that we were able to pass on this reduced costs in current prices but prices must now increase again to match the charges. Note that our situation differs to most other networks that are seeing a reduction in Transpower's charges. In terms of total delivery prices, the impact of this change is a 1.6% increase.

Combined impact of changes

Combining our reduction and Transpower's increase, our prices for major customer connections are reducing by 4.5%. However, to a small extent, the different price components are changing by different amounts, and as each major customer connection has a different exposure to each component, the reduction will vary. For the vast majority the reduction will be between 1% and 8%.

Price restructuring

Last year we completed our rebalancing of prices to better reflect costs at the smaller end of the major customer range, and to widen the eligibility criteria for electing to be in the major customer category. This year we are not applying any further changes, with one exception - for qualifying major customer connections, we are introducing an "additional connection" charge to moderate the impact of the higher daily charges where we provide multiple connections that are combined (totalised) for pricing purposes. The additional connection charge is initially set at half the amount and will replace the standard connection charge in situations where connections meet our current criteria for totalisation.

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.

Export and generation credits

Our export credits reflect the savings in investment that are available when peak loads are reduced with generation. The current low-interest environment (mentioned above) reduces the cost of this investment, with a corresponding reduction in our assessment of savings. With the high asset weighting in this assessment, the reduction is more acute than our broader pricing, and we are reducing credit prices 20% to match our assessment of the savings.

In light of these changes and the reduction in the credits applied last year, for those that have not already done so, we recommend that exporting customers should reconsider the operation of generators with a view to matching load rather than exporting.

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 Alex Nisbet, Pricing Manager at Orion (phone 03 363 9737) for more information.

Delivery price changes for major customer connections

(issued 31 January 2020)



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

All prices exclude GST	Current prices 1 April 2019 to 31 March 2020	New prices from 1 April 2020	Unit of measure
Electricity delivery			
Fixed charge	10.00	10.00	\$/con/day
Fixed charge (additional connections)	NA	5.00	\$/con/day
Peak charge (control period demand)	0.4148	0.3955	\$/kVA/day
Nominated maximum demand charge	0.1135	0.1044	\$/kVA/day
Metered maximum demand charge	0.0713	0.0762	\$/kVA/day
Monthly invoice and contract charge (for directly contracted major customers)	30.00	30.00	\$/invoice
Dedicated equipment			
Extra switches	3.6700	3.2700	\$/switch/day
11kV Metering equipment	4.4500	4.2600	\$/con/day
11kV Underground cabling	3.2900	3.3400	\$/km/day
11kV Overhead lines	2.0700	2.1000	\$/km/day
Transformer capacity	0.0138	0.0119	\$/kVA/day
Export credits <i>(30 to 750 kW generators, export during control periods, subject to prior approval)</i>			
Real power (kW) credit	(0.0897)	(0.0721)	\$/kW/day
Reactive power (kVAr) credit	(0.0295)	(0.0237)	\$/kVAr/day

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 electricity delivery price 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.

Export credits are subject to specific requirements and full details are set out in our *Export Credits Policy* document, available from our website.