

## Key features of this year's price review

(for prices applying from 1 April 2020)

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. Full details are available for download from our website, see our:

- *Pricing Policy* document for full details on how we apply charges,
- *Methodology for deriving delivery prices* document for details on how we establish prices and price structures, and
- *Commercial terms for new connections and extensions* document for additional charges that apply for new and modified electricity supplies.

For more information please contact Orion's pricing team.

### Regulated price reduction

Orion operates under a regulated price-quality path which has been updated and reset 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 as a result our prices will reduce. In terms of total delivery prices, the new price path provides a 7.4% reduction, which follows last year's reduction of 1.5%

### 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 were pleased that we were able to pass on the temporarily reduced cost, 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 1.4% increase.

### Combined impact of changes

Combining our reduction and Transpower's increase, our prices are reducing by an average of 6.0%, which follows a similar reduction in last year's update. Each of our pricing categories has a different exposure to the components that are increasing and reducing, so the impact varies a little. In summary, our average movements are:

- General connection delivery prices (covering all residential and most business connections) are reducing by 6.4%.
- Irrigation connection delivery prices are reducing by 6.4%.
- Major customer connection delivery prices are reducing by 4.5%
- Streetlighting connection delivery prices are reducing by 9.3%.

## **Price restructuring**

Last year we introduced a universal fixed charge for general connections and broadened the eligibility to elect to be in the major customer category. We are facing a range of conflicting pressures to further adjust our prices and we are conscious of the impact that structural changes have on customers. In the absence of a clear direction we are not applying further changes this year.

One exception is a minor modification to improve on the changes we made last year. 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 for pricing purposes.

## **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.

## **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 2020, 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 in line with the movement in CPI, although we have left new connection fees (customer capital contributions) and temporary isolation charges unchanged.

## **Export 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.

## **Further information**

An overview of pricing changes specific to our major customer connection category is available at [www.oriongroup.co.nz/PricingUpdateMajorSummary](http://www.oriongroup.co.nz/PricingUpdateMajorSummary)

Our pricing documentation including current and previous price schedules and our updated pricing methodology document are available on our website at [www.oriongroup.co.nz/DeliveryPricing](http://www.oriongroup.co.nz/DeliveryPricing)

Any queries can be directed to Alex Nisbet, Pricing Manager at Orion (phone 03 363 9737).