Methodology for deriving delivery prices – update

For prices applying from 1 November 2026

Issued 2 September 2026

This document provides an update to Orion's published pricing methodology issued on 25 February 2026 (the FY27 methodology), and is issued pursuant to clause 2.4.2 of the Electricity Distribution Information Disclosure Determination 2012 (the ID Determination).

Orion has introduced pricing for a flexibility pilot with the aim of addressing peak demand in the Halswell zone substation area which is approaching constrained levels (the Halswell Flex pilot). This document should be read in conjunction with the original methodology and sets out changes that have been made to accommodate the pilot.

Halswell Flex pilot

Orion is investigating alternatives to traditional network investment solutions to determine whether demand-side flexibility can provide a cost-effective means of managing network constraints and accommodating growth in electricity demand.

The objectives of the Halswell Flex pilot are to:

- assess whether demand-side flexibility can provide a viable alternative, or complement, to conventional network reinforcement;
- explore how an open flexibility market could operate alongside existing contracted demand management services;
- evaluate how customers, retailers, aggregators, and other service providers respond to network price signals and flexibility incentives;
- investigate opportunities for participants to create value from multiple services, including network support and wholesale market participation; and
- capture technical, commercial, and customer experience insights to inform future network planning and support the transition to a more distributed energy system.

An area approximating the Halswell Zone Substation supply area has been chosen for the pilot. Orion has identified that this area is expected to approach its capacity limits before a planned substation upgrade currently scheduled for 2030. Modelling indicates that reducing peak demand by approximately 1 MW in 2030 could enable deferral of that investment. The pilot is intended to test whether this outcome can be achieved through market-based flexibility services.

To support the pilot, Orion has introduced a new network pricing category designed to incentivise reduction in demand during signalled network peak periods within the pilot area. The pricing changes associated with this arrangement are described in the following sections.

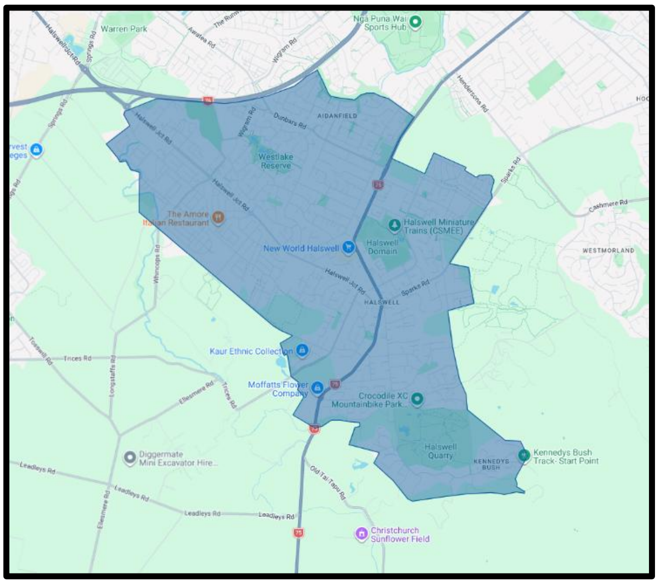

Figure 1: Halswell Flex area

Introducing locational pricing

The Halswell Flex pilot incorporates a form of locational network pricing. A transition toward greater use of locational pricing was signalled in the roadmap set out in the FY27 published pricing methodology, reflecting Orion's objective of improving the alignment between prices and the underlying costs of providing network services.

Locational pricing seeks to reflect the specific network costs and constraints that arise in particular parts of the network, and at particular times. Rather than spreading these costs uniformly across all customers, locational pricing provides signals and incentives to customers whose demand has an influence on future network investment requirements.

Importantly, locational pricing is not intended to impose additional charges simply because a network area is approaching a capacity limit or because a high-cost network upgrade may be required in the future. Rather, it seeks to structure prices so that they better reflect the factors driving the need for that investment. In doing so, customers are provided with clearer information about the costs their usage imposes on the network and the value of reducing demand during periods of constraint.

Where customers respond to these signals by reducing or shifting demand, the need for future network investment may be reduced or deferred, creating benefits for both participating customers and the wider customer base. Conversely, where customers choose to continue using the network in the same way, the resulting investment can proceed and the associated costs will ultimately be recovered through network prices. In this way, locational pricing supports more informed customer choices and can help ensure that investment decisions reflect customers' demonstrated willingness to pay for additional network capacity.

The Halswell Flex pilot provides an opportunity to test these concepts in practice within a specific network area that is facing future capacity constraints. The pilot will help Orion assess the effectiveness of price-based signals in encouraging flexibility and will provide insights into the potential role of locational pricing as part of Orion's longer-term pricing approach.

Categorisation

The pilot is initially targeted at residential consumers and introduces a new price category, **Halswell Flex Residential.** Participation is voluntary and is limited to connections that:

- are supplied by a retailer that has met Orion’s requirements to qualify as a participating pilot retailer;
- are classified as residential connections; and
- are located within Orion's designated Halswell Flex pilot area.

Orion will assign a connection to the Halswell Flex Residential category upon request from the retailer, provided the eligibility criteria are satisfied.

The category will be open to new participants from 1 November 2026 until 30 April 2029, unless Orion notifies in writing that the pilot will be extended. To prevent seasonal switching between price categories and the resulting pricing arbitrage opportunities, connections that elect to join the category must remain within it for a minimum period of 12 months.

The pilot is scheduled to operate until 31 March 2030, after which Orion will review the outcomes and determine any future pricing arrangements.

Cost allocation and price setting

This update does not change Orion's underlying cost allocation methodology. The Halswell Flex pilot pricing has been designed to recover broadly the same level of revenue as would be recovered under the standard pricing arrangements for participating connections.

The fixed daily charge has been set at the rate applicable to Orion's most common source category. The peak event charge has been calibrated so that, for an average connection whose consumption profile remains unchanged, the resulting charges are expected to be broadly equivalent to those recovered through the standard peak time of use charge. A uniform consumption charge has then been set to recover the balance of the target revenue requirement.

The result is a different pricing structure rather than a different revenue target. Retailers whose customers reduce demand during notified peak events may face lower delivery charges than would otherwise apply under the standard pricing arrangement. Conversely, where customer consumption patterns remain unchanged, the total delivery charges are expected, on average, to remain broadly comparable to those that would have been recovered under standard pricing.

Alignment with pricing principles

The Authority's Distribution Pricing Principles 2019 provides pricing principles for distributors to apply when developing their pricing structures. They are:

(a) Prices are to signal the economic costs of service provision, including by:

  (i) being subsidy free (equal to or greater than avoidable costs, and less than or equal to standalone costs);

  (ii) reflecting the impacts of network use on economic costs;

  (iii) reflecting differences in network service provided to (or by) consumers; and

  (iv) encouraging efficient network alternatives.

(b) Where prices that signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

(c) Prices should be responsive to the requirements and circumstances of end users by allowing negotiation to:

  (i) reflect the economic value of services; and

  (ii) enable price/quality trade-offs.

(d) Development of prices should be transparent and have regard to transaction costs, consumer impacts and uptake incentives.

The Halswell Flex pilot is intended to improve alignment with several of these pricing principles.

In particular, the pilot enhances adherence to principle (a)(ii) by providing stronger signals that reflect the impact of network use on future network costs within a specific constrained area of the network. Customers whose demand contributes to peak loading in the Halswell Zone Substation supply area are exposed to pricing signals that more directly reflect the costs associated with serving that demand.

The pilot also supports principle (a)(iii) by recognising differences in the network services provided to customers in different locations. Customers supplied from the Halswell Zone Substation have a greater influence on the timing and scale of future investment in that area than customers elsewhere on the network, and the pricing structure has been designed to reflect those differing circumstances.

In addition, the pilot promotes principle (a)(iv) by encouraging efficient alternatives to traditional network investment. By creating incentives to reduce or shift demand during periods of network constraint, the pricing structure provides an opportunity for customers, retailers and flexibility service providers to deliver network support services that may defer or reduce the need for future network expenditure.

The pilot also advances principle (d) by testing a transparent pricing mechanism that provides clear signals regarding when and where demand reductions are most valuable to the network. The design seeks to balance improved cost-reflectivity with practical implementation considerations and customer understanding.

As the pilot has been designed to recover broadly the same revenue as would be recovered under Orion's standard pricing arrangements, it does not materially affect the application of principles (a)(i) or (b). Nor does it introduce any additional negotiated pricing arrangements relevant to principle (c). However, the outcomes of the pilot may inform future pricing developments in these areas.

Price schedule and target revenue

The following table sets out the prices for the new Halswell Flex pilot category, the expected number of participants and the target revenue (all excluding GST):

	Price Category/ Component Code	Delivery Price	Unit of measure	Target revenue	Transmission proportion
Halswell Flex pilot with 400 participants					
	RESHALSFLEX				
Fixed Daily Charge	RESHALSFLEXFXD	0.7572	$/con/day	$110,550	2.5%
Peak event price	RESHALSFLEXPED	1.7489	$/kW/day, May through August	$167,885	42.3%
Peak event export credit	RESHALSFLEXPEX	(1.7489)	$/kW/day, May through August	($860)	0.0%
Volume price	RESHALSFLEXAT	0.0400	$/kWh	$121,595	7.3%

Note that the target revenue above is based on an effective full year implementation at current prices, and is modelled based on take-up of 400 customers.