

Overall Rating 2.8/5

## Distribution pricing principles - Scorecard 2020: Orion

### Summary

Current State



Strategy



Outcomes



### Status - detail

Circumstance



Principles



Strategy



Roadmap

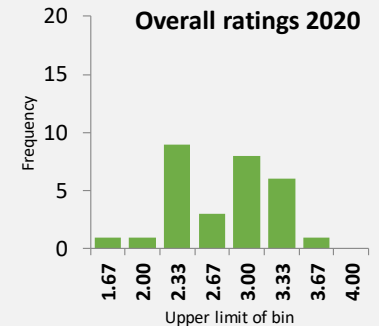


Efficiency



Consumer impact

N/A



### Current State

- Brief on network features and trends that would affect pricing choices.
- Key pricing feature is signal of long run average network replacement costs via peak prices (39% of revenue, incl. transmission interconnection).
- Relies on c/kWh for non-distortionary revenue recovery (44% of revenue), but shifting toward fixed charges in light of cost avoidance responses.

### Strategy

- Clear strategy: incremental change with emphasis on signaling long run costs.
- Solar growth is prompting reconsideration of c/kWh charges.
- Roadmap explains why further changes to pricing are subject to, in particular, the outcome of LFC regulations and TPM. We again encourage Orion to provide a roadmap for how pricing will evolve given expected regulatory developments.

### Outcomes

- Focus on long-run pricing to the exclusion of short run costs. The reasons are well explained, but it does risk reducing consumption unnecessarily.
- LRAIC estimated as \$84/kW, last year it was \$104/kW, but Orion has used \$94/kW to smooth price changes (though this may over-signal long run costs).
- Relies on c/kWh charges for revenue recovery – these are signals in addition to peak charge signals, particularly 7am-9pm weekdays.

### Key messages

- Orion takes a highly principled approach to cost reflective charging. It is not clear that it is the best approach, but it is arguably better than many others:
  - signalling long run cost may unnecessarily suppress demand
  - but Orion's peak charge is based on a clear benchmark.
- We understand Orion's use of c/kWh to recover remaining revenues and note:
  - an opportunity for greater use of fixed charges (as is contemplated) – all 205,000 general connections (including higher use residential and small commercial connections) are on the 15c low fixed daily charge
  - differentiating weekdays from night and weekends adds an economic signal, which seems inconsistent with its peak charge method.
- The efficiency reasons or impacts were not clear in relation to:
  - the effect of smoothing the interconnection charge signals, by allocating on network ADMD first, rather than using actual RCPD
  - irrigation power factor correction rebates are funded by other consumers. Might a charge on those without correction gear and that reflects costs of foregone real power be more targeted at the issue?
- The very accessible consumer guide to Orion's pricing is a nice contribution.

For scoring, see practice note and methodology at <https://www.ea.govt.nz/operations/distribution/pricing/>