

Summary

Current state



Strategy



Outcomes



Status-detail

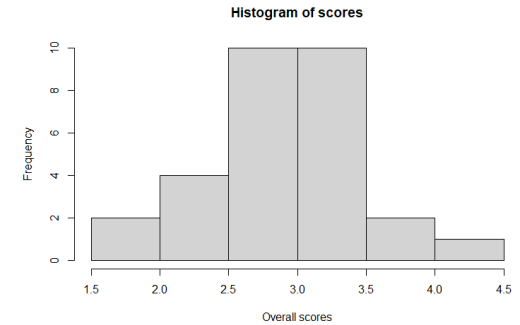
Circumstance
Principles



Strategy
Roadmap



Efficiency
Consumer impact



Current state

- Orion provides useful sketches on customer groups (numbers, volumes, peak, VOLL) and considerations for pricing. Would be better with an indication (from its AMP) of where the main demand pressures are or will be, and where price signals have a role.
- The extent of Orion’s alignment with pricing principles is explained well. It would benefit from establishing more clearly the efficiency of Orion’s approach to peak pricing and recovery of remaining revenues.

Strategy

- Orion has a clear strategy: incremental change with continued emphasis on signalling long run costs. Solar growth has prompted an increased use of fixed charges.
- Key steps in its roadmap are to clarify the problem definition and then possible changes to pricing subject to decisions on LFC regulations and TPM. Changes may include de-weighting volume pricing and changes to its peak pricing by 2023.

Outcome

- Currently Orion relies on peak and volume pricing (37% and 44% of revenue respectively), and these could reduce or influence consumption unnecessarily.
- No significant pricing changes to manage at this point, so ‘consumer impact’ not rated. However, Orion smooths significant price changes to manage bill shocks.

Key messages

- Orion takes a highly principled approach to cost reflective charging. It is not clear it is the best approach, but it is arguably better than many others:
 - Orion’s peak charge is based on a clear benchmark (LRAIC)
 - widespread application promotes administrative simplicity and consistent signals (particularly relevant as LRAIC is dominated by upper HV network costs, p55)
 - peak signals across all consumers may unnecessarily suppress demand, eg, in parts of the network where there are no capacity issues
 - methodology could be improved by demonstrating the efficiency costs are minimal or strike a reasonable trade-off.
- We understand Orion’s current reasons for using c/kWh to recover residual revenues, and for focusing on weekday consumption (p46), but note:
 - differentiating weekday from night and weekend rates does add a signal about the cost of network use, in addition to the peak charge
 - not all of the 208,000 general connections are low use residential connections to which the 15c low fixed daily charge applies
 - those points indicate opportunities to improve the efficiency of how residual revenues are recovered.

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

