

Orion – Distribution pricing scorecard 2023

Overall score: 4.1/5



Current state:

Orion does a great job of explaining the central pressures on the network with a good map of expected congestion. Good to hear about the Lincoln trial around flexibility services. Orion's document effectively communicates the degree of alignment with pricing principles.

Strategy:

Orion has a clearly laid out strategy and process for network growth. It is considering implementing constraint charges and is working on a new billing system for April 2024 that integrates DER/flexibility traders. There is a good discussion of the different trade-offs involved in price setting. It is also considering implementing a super saver period. Orion achieved all the activities targeted for the year.

We welcome the plan to increase the proportion of revenue recovered through fixed charges and aim for 14-20% revenue recovered through variable charges.

Key messages:

We note that Orion is trialing flexibility services in congested areas. We welcome the low off-peak charge.

It would be helpful if Orion made their pricing schedule clearer. Specifically, having a more evident breakdown of rates between LFC and standard for residential consumers would be beneficial. This would make it easier for customers to understand the pricing schedule. Additionally, the Authority recommends that Orion decrease the AMD rate.

Outcomes:

We have observed that Orion is recovering less than 3% of its revenue through AMD charges which is appropriate. In addition, we note that the implied LRMC from the controlled discount is much lower than that implied from the TOU differential. We expect to discuss this further with you in due course. Orion could improve its pricing methodology by providing a more detailed quantitative analysis linking network circumstances to peak signal strength. The Authority commends Orion for its excellent practice of presenting the calculation for incremental and standalone costs to demonstrate that its customer categories fall within the subsidy-free range. The Authority also acknowledges the increasing percentage of ICPs assigned to TOU pricing.

There is significant discussion of customer impact within the methodology.

Regarding the five specific expectations of progress shared in September 2022 in the Open Letter:

- Focus area 1: Roadmaps responding to future network congestion: The pricing roadmap responds to near and future congestion and uses time-of-use volume pricing to provide more precise signals and load control tariffs.
- Focus Area 2: First mover disadvantage in new and expanded connections: Orion is currently reviewing its capital contribution policy, where we acknowledge the work and discussion Orion is undertaking around any significant first mover disadvantage facing customers seeking to connect to their networks.
- Focus Area 3: Pass-through of new transmission charges: TPM pass-through is consistent with Authority guidance.
- Focus Area 4: Phase-out of low fixed charge (LFC) regulations: Price methodology follows guidance for the phase-out of the LFC tariff.
- Focus Area 5: Recovery of fixed costs through use-based charges: Although Orion still has some AMD charges for large consumers, it is notable that it is moving away from them.