

Summary of Orion's proposed electricity network reliability and prices




Orion
yourNETWORK

Introduction

The impacts of the earthquakes on Orion’s electricity network have been significant. Our repair and recovery work continues and we are now working to support the Christchurch rebuild by providing a strong electricity network. This work will cost tens of millions of dollars.

Our network prices and our network reliability targets - our targets to keep the lights on - are set by the Commerce Commission. Our current prices and reliability targets were set before the earthquakes.

Given the impact of the earthquakes, we intend to apply to the Commission for a price increase that would start on 1 April 2014, the year after next. We also propose reliability targets that would see our network return to near pre-earthquake reliability and resilience levels by 2019.

Before we apply to the Commission, we need to know whether you want us to rebuild our network so that the lights stay on as well as they did before the earthquakes and what you think about our proposal to apply for a price increase.

We want to continue to make sound investments in our network for the long term benefit of our community, like the investments we made in seismic-strengthening which prevented an extra \$65m of damage to the electricity system in 2011. That work also prevented months of power cuts after the earthquakes, something that was very important for our whole community’s social and economic well being.

Please read the information here and on our website www.oriongroup.co.nz/cpp and let us know what you think.

We thank you for your support over the last two years.

Rob Jamieson

Chief Executive Officer
Orion New Zealand Limited



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Key points

What we propose

- Given the impact of the earthquakes, we intend to apply to the Commerce Commission in February 2013 for a review of our regulated prices and network reliability targets.
- We propose to target a level of electricity network reliability and resilience by 2019 that is near pre-quake levels.
- We propose a price increase, starting 1 April 2014, spread over several years. Our proposed increase, excluding inflation, equates to 5% more on the average electricity bill of a household or business. For a typical household consumer, the impact of our proposal would be an increase of \$8.50 a month including GST in today's dollars.
- These prices provide no more than a fair return and provide the right incentives for us to continue to make sound investments for the good of our consumers.

The Commerce Commission will assess our proposal thoroughly and consult with our community before it makes any decision about our pricing and reliability levels.

Context

- Before the earthquakes our electricity network was reliable and resilient in line with our community's expectations, and our pricing was below the New Zealand average.
- Our prices typically amount to one quarter of an average household or business electricity bill.
- Our pre-earthquake seismic protection work and planning is estimated to have saved us \$65m in repair bills.
- Our seismic protection work also helped prevent more severe damage and cost to our community's social well being and to Canterbury's \$15b economy.
- Despite our seismic protection work, the earthquakes caused unprecedented damage to our network.
- In the three years between the earthquakes and 1 April 2014 our regulated prices will not keep pace with inflation, despite the impact of the earthquakes.

Who is Orion and what does it do?

Orion is your local electricity distribution company. We take power from the national grid, owned by Transpower, and distribute it to all 190,000 power consumers in Christchurch and central Canterbury. Our electricity network covers the area between the Waimakariri and Rakaia rivers, and from the Canterbury coast to Arthur's Pass.

We are owned by the Christchurch City Council (89%) and Selwyn District Council (11%).

Orion's electricity network can be compared to a roading network. It is made up of:

- large 66,000 volt (66kV) cables and equipment that carry power to over 100 substations. They are like ring roads round a city, but instead of traffic, transport 'bulk power' to the main areas where it's needed
- substations, where we 'step down' the voltage from 66kV to 11,000 volts (11kV) to take power to smaller areas, much like main suburban roads.
- roadside transformers at street level, which convert the power to the 230 volts that goes down the lines and cables in your street to your home or business.



Our electricity network covers a diverse geographical area that stretches from rural Banks Peninsula to Christchurch city and out to farming towns on the plains and into the hills and high country.

How the earthquakes affected Orion

The earthquakes caused extensive damage to the roads, water, wastewater and sewage pipes in Christchurch. The cost of that rebuild is estimated at \$2 billion.

Our electricity network also suffered significant damage and our costs have increased.

We need to spend about \$155m more in capital expenditure than was forecast before the earthquakes. We will have to repair or develop nearly every major section of our network, in Christchurch and wider Canterbury, before 2019.

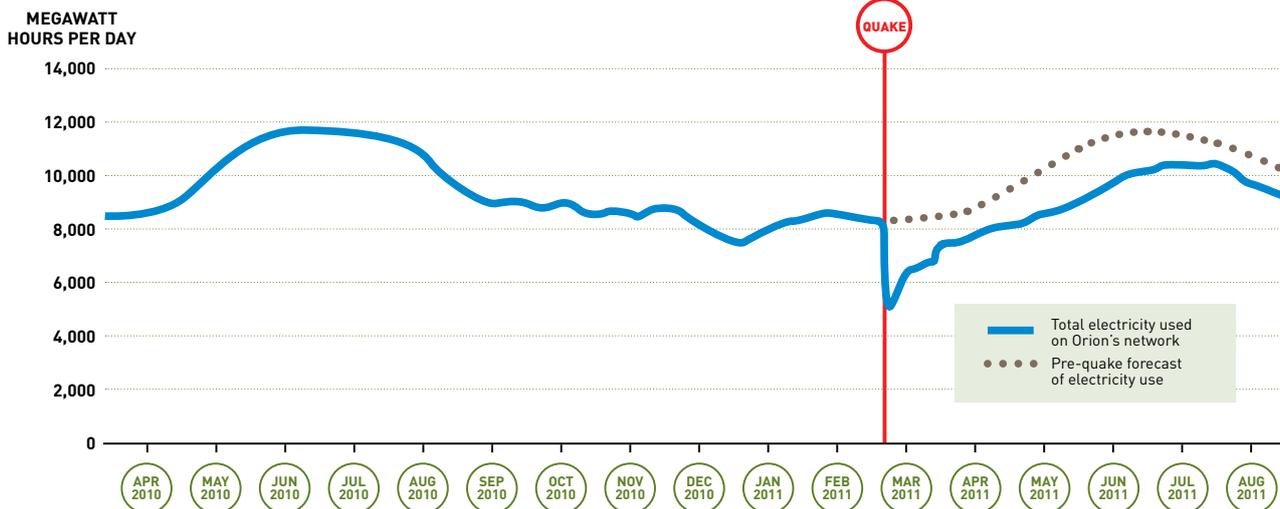
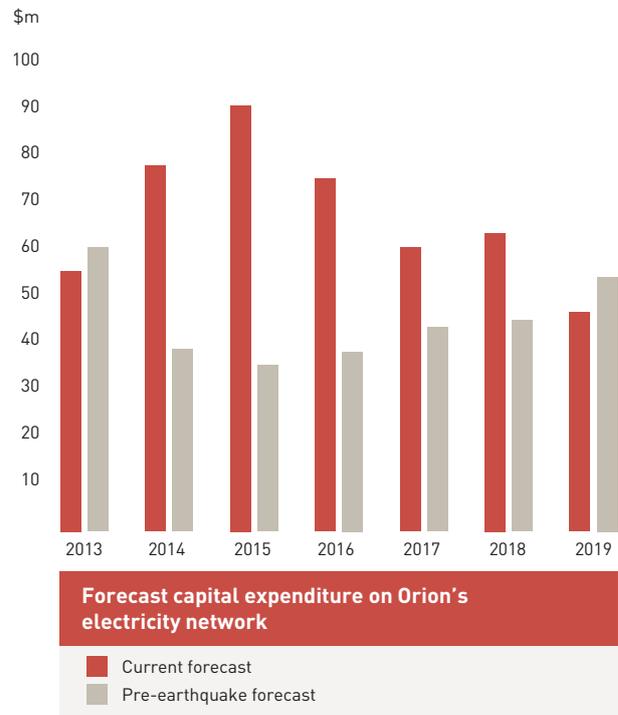
The extra expenditure is needed to restore our network in damaged areas as well as expand our network in areas such as Rolleston, Lincoln and Belfast where the population is growing as a result of the quakes. Extra investment is also needed in the badly damaged central city.

Our extensive seismic strengthening programme in the 15 years before the earthquakes reduced our repair costs by about \$65m. It also meant that power was restored much quicker after the quakes. Without this work, power would likely have been out for months in some areas.

Since the quakes the amount of power supplied on our network has dropped by about 10%, mostly due to buildings being demolished. The graph below shows the sharp reduction

after the February 2011 earthquake. That drop continues to this day.

We estimate that our loss in revenue has been close to \$30m so far. By 1 April 2014 it will be around \$50m.



Reviewing our prices and reliability

All electricity distribution companies in New Zealand are regulated businesses. Orion is one of these and that means we come under the control of a law called the Commerce Act.

The Act controls the price and quality of goods or services in markets where there is little or no competition.

A Government organisation called the Commerce Commission administers the Act. The Commission sets targets for how reliable our electricity network should be and also sets limits for the prices that we can charge to deliver electricity around our region.

A regulated company like Orion is different from most other businesses. By law, we cannot make big gains in good times to balance out higher costs when times get tough.

As well as limits on our prices, there's no allowance in advance for the uninsurable costs of disasters. We couldn't insure our overhead lines and underground cables before the quakes (and still can't) because it wasn't economic to do so. We are not aware of any electricity distribution company in Australasia that insures its lines and cables. Where we could economically insure parts of our electricity network, such as our buildings, we did so.

The Commission allows us to apply for a review of our network reliability targets and prices after a natural disaster. Given the financial impact of the earthquakes, we intend to apply to the Commission for one of these reviews.

The review would aim to recover our costs from the people that use, and benefit from, our network. It would also change our reliability targets to reflect the state of our network while earthquake recovery is underway.

Any new prices and reliability targets would apply from 1 April 2014.



Repair crews replace damaged 11kV cables on Bexley Road. Since the earthquakes we've seen more than 1,000 cable faults on our network – more faults than we usually see in a decade.

Our proposed reliability

Even though major emergency repairs are finished, there is still much work ahead of us to build strength back into the electricity network. As power cuts will continue while recovery work is underway, we propose to apply to the Commerce Commission for new reliability targets which better reflect the damaged state of our network.

As shown in the table below, we propose that:

- the number and length of power cuts on our electricity network will reduce as we rebuild our network
- by 2019 the number and length of power cuts will be, on average, only slightly above pre-earthquake levels.

Year ended 31 March	Historical reliability performance and current targets					Our proposed reliability targets				
	2009	2010	2011	2012	Orion's current target (as set by the Commerce Commission)	2015	2016	2017	2018	2019
Length of power cuts per consumer (in minutes)	62	61	3812	231	60	102	93	90	81	72
Number of power cuts per consumer	0.6	0.6	3.0	2.2	0.8	1.4	1.2	1.2	1.0	0.9



Orion has continued to operate from the Christchurch CBD since the earthquakes. Our 160 employees came through the Canterbury Earthquake Recovery Authority cordon each day for 14 months to keep the power on. We are now on the edge of the 'red zone'.

Our proposed prices

Our charges make up around 25% of a typical household and business electricity bill.

We propose to apply to the Commerce Commission for approval to increase our prices by 15% above inflation in the year after next (from 1 April 2014) and by 1.2% above inflation for the four years following.

Based on the average household power bill of \$180 a month the average increase will be \$8.50 per month* - this equates to a one-off 5%* increase to the average monthly power bill.

** excludes inflation*

Our price increase proposal – the impact on an average total monthly household power bill (including GST, excluding inflation)						
Year starting 1 April	2014	2015	2016	2017	2018	2019 to 2023
Impact of our proposed prices	\$6.80	\$7.40	\$8.00	\$8.70	\$9.30	\$8.90
<div style="display: flex; align-items: center; justify-content: center;"> ← Average impact = \$8.50 a month → </div>						

This increase would help to pay for a repaired, resilient and reliable electricity network that’s fit for purpose and that can support the Canterbury rebuild.

The figure of \$8.50 per month on average is for a typical household. A small or medium business would see an increase of about \$100 a year, excluding GST, for every 10,000kWh of power used.

We did not increase our prices at all this year and we plan to increase our prices only slightly to reflect inflation next year. So for the three years between the February 2011 earthquake and 1 April 2014 our prices will not have kept pace with inflation and we will not have recovered any quake-related costs.



Our earthquake repairs and recovery will continue over the next six years.

The Commerce Commission process

Depending on any comments that you and others provide, our proposal may change before we submit it to the Commerce Commission in February 2013.

Before it's submitted, a Commission-approved 'verifier' will check that the information supplied in our proposal is correct.

If the Commission decides to proceed with our application, it will then consult with our community in 2013. If it decides to approve a change to our prices and network reliability targets, the earliest we could increase our charges is 1 April 2014.



Our Keys Road substation was quickly built after the February 2011 earthquake.

Your opportunity to comment

We're keen to hear what you think of our proposal. **Your feedback is needed by 5pm on Sunday, 16 December 2012.** Feedback can be made online at www.oriongroup.co.nz/cpp or by post to:

CPP Feedback
Orion New Zealand Limited
PO Box 13896
Christchurch 8141

You can also email your feedback to CPPfeedback@oriongroup.co.nz.

Please note that your feedback may be made public.

You're also welcome to attend a **public information day on Monday 3 December 2012** from 10am to 4pm at our offices at 200 Armagh Street, opposite Centennial Pool.

Need more information?

Website: visit our website at www.oriongroup.co.nz/cpp. A plain English guide and other material is available there to help you understand our proposal.

Phone and email: if you would like more information please call us on **03 363 9898** or email CPPfeedback@oriongroup.co.nz.

